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# FINANCING INFRASTRUCTURE PROJECTS IN MEXICO: THE BUILD-OPERATE-TRANSFER APPROACH



FIRST EDITION



Department of Foreign Affairs and International Trade  
Ministère des Affaires étrangères et du Commerce international  
Latin America & Caribbean Trade Division



B U S I N E S S G U I D E - M E X I C O

## **Business Guide – Mexico**

### **Financing Infrastructure Projects in Mexico: The Build-Operate-Transfer Approach**

was developed by the Department of Foreign Affairs and International Trade (DFAIT) and written by Thomas Creary and Paul Sudolski of Prospectus Associates in Corporate Development Inc. This business guide was made possible through the support of the Toronto office of Baker & McKenzie.

This business guide is designed to provide an overview of the **Build-Operate-Transfer option in Mexico**; it is not intended to be the only source of information in this area. All efforts have been made to avoid errors and inaccuracies in this Business Guide. We encourage the reader to use this as one of the resources for commercial dealings with Mexico, evaluating business decisions with the assistance of the appropriate professional advice. Neither the authors, the publishers nor the collaborating organizations will assume any responsibility for commercial loss due to business decisions made based on the information contained in this book.

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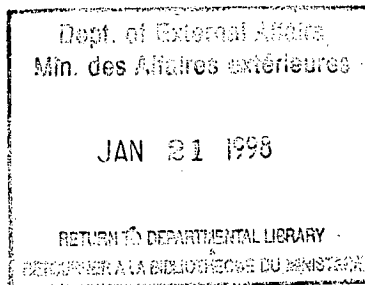
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# BUSINESS GUIDE

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## FINANCING INFRASTRUCTURE PROJECTS IN MEXICO: THE BUILD-OPERATE-TRANSFER APPROACH



*Opport*  
MEXICO

# Mexico





## FROM BAKER & M<sup>c</sup>KENZIE, BARRISTERS & SOLICITORS

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Bill Watson  
(416) 865-6910

Allan Turnbull  
(416) 865-6923

Roy Kusano  
(416) 865-6903

Paul Burns  
(416) 865-6912

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## THE NAFTA

The North American Free Trade Agreement (NAFTA) expands Canada's free-trade area of 270 million people into a market of 360 million — a market larger than the population of the 12 countries of the European Community and one with a total North American output of \$7 trillion.

Mexico is Canada's most important trading partner in Latin America. Two-way merchandise trade with Mexico exceeded \$5.5 billion in 1994 and is expected to increase to over \$7 billion by the end of the decade.

Canadian direct investment in Mexico is growing rapidly; increasing from \$452 million in 1992 to over \$1.2 billion in 1994.

This guide has been prepared with the problems inherent to the new exporter in mind. However it is not exhaustive; individual circumstances, interests and needs will dictate how companies should tailor their approach and strategy to the Mexican market.

Further assistance can be obtained by addressing requests directly to:

Department of Industry (DI) through the provincial International Trade Centres (Key Contacts Section)

or

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## INTRODUCTION

One of the characteristics of developing economies is an intense demand for improved infrastructure. Typically, the growth and restructuring of economies are constrained by a lack of roads, power, telecommunications, water and sewers. Few developing nations have sufficient public assets to modernize and expand their infrastructure rapidly enough to support sustained economic growth. Mexico is typical in this respect.

Mexico has witnessed a remarkable economic transformation. For decades, successive Mexican governments used state intervention to protect domestic industries from competition. Exports were promoted mainly by linking foreign investment permits to export performance requirements. This situation changed dramatically when the government of President Carlos Salinas came to power in late 1988. Almost immediately, the new government implemented a series of sweeping reforms. Trade was liberalized and Mexico became a full member of the GATT. Public enterprises were sold and deregulation threw entire sectors open to competition for the first time. Investment opportunities were opened to foreigners. A program of economic stabilization improved the overall investment climate. And the implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994 increased the level of competition in the Mexican economy even further.

These developments have put intense pressure on Mexican companies to modernize and meet international standards of productivity and product quality. Gradually, larger and more efficient corporate groups are emerging from Mexico's traditional industrial structure, comprised largely of family-owned businesses. Markets are replacing bureaucracy and personal connections as the principal means of allocating resources. Companies are integrating their operations and forming alliances with both Mexican and foreign producers. In addition, Mexico is under pressure to improve its environmental record as part of its obligations under the NAFTA.

Mexico's infrastructure is inadequate to support the nation's transition into a fully-competitive free market economy. There are also serious problems associated with expanding the social infrastructure in such areas as education, housing and health care facilities. This problem has plagued Mexico for a long time. Financing problems in developing the infrastructure have emerged at a time when the government is attempting to reduce its debt. Attracting private capital in increasing volumes has become an important tool to close the infrastructure gap. A number of major infrastructure providers, including *Teléfonos de México (TELMEX)*, the state-owned telephone company, have already been sold to private investors.



The new government of President Ernesto Zedillo took office in December 1994. Within three weeks it allowed the peso to float. Subsequent efforts to stabilize the currency have called even greater attention to the prospects for further privatization and use of private capital in financing infrastructure. However, public hostility to the notion of privatizing *Petróleos Mexicanos (PEMEX)*, the state-owned oil company, has forced the government to consider infrastructure providers as the main candidates. For example, *Ferrocarriles Nacionales de México (FNM)*, the Mexican National Railway, is now being proposed as a prospect for privatization.

The increasing pace of privatization has placed a new priority on finding effective models for transferring infrastructure responsibility to the private sector. Successful infrastructure privatization programs and the increasing openness to the use of private capital require governments and investors to act as partners in a win-win joint venture endeavour. The zero-sum view, that suggests that either the government or the investor will gain at the other's expense, eventually dooms infrastructure privatization to failure. The challenge is to find ways that public interest can be protected, while still offering attractive opportunities to investors.

In the win-win model, private investors achieve rates of return commensurate with the risk by participating in a carefully structured and managed partnership program designed to accelerate the host country's economic development. This implies that the government creates a legal and regulatory framework that enables the private sector to manage and control the risks of operating infrastructure facilities. The most common vehicle is called build-operate-transfer (BOT). Mexico is increasingly open to this method of mobilizing private capital for public infrastructure.

## ADVANTAGES OF BUILD-OPERATE-TRANSFER

There is a global trend towards much greater private sector involvement in infrastructure development. This trend is not unprecedented. In the 19th century, private-capital financed canals and railways around the world. Private investors are once again being called upon to build and operate roads, bridges, tunnels, power stations, water treatment plants and other infrastructure projects that have been considered the sole responsibility of governments for many years.

To fund these activities, developers are increasingly using the concept of project financing. This means that loan repayment is based on the revenues generated by a project rather than on the income or assets of the developer. Joint venture partners are generally called upon to provide less than 20 percent of the capital cost. Also known as limited-recourse or non-recourse financing, this specialized field is attracting more and more players.

Traditionally, countries like Mexico have financed public infrastructure through transfers of public funds combined with borrowing from the international financial institutions as well as from large commercial banks in the developed countries. Up until the early 1980s, the large commercial banks along with the World Bank took the lead in lending to developing countries. Further assistance was provided by export credits guaranteed by suppliers' governments. Ten years ago, these were the most common method of financing infrastructure projects. The debt crisis of the developing world in the early 1980's changed this, however. Large commercial banks got out of lending to developing countries. This withdrawal of the commercial banks created a crisis. The other mechanisms, such as the international financial institutions, could not adequately fill the void.

There is simply not enough money available from international lending institutions to handle the rapidly growing demand for infrastructure projects. Taxpayers in countries such as Mexico cannot finance such projects on their own. The only way to cover these financial requirements has been to increase the flow of private capital to the projects.

Under the build-operate-transfer (BOT) approach, private capital, usually from foreign sources, is combined with supplier credits and other types of financing. The foreign, or joint-venture project development company runs the facility for a defined period. It collects user fees, repays the project debt and, at the agreed time, transfers the assets to the government of the host country. This financing method has become increasingly popular. It is estimated that roughly half of all infrastructure investment is now coming from private investors as a result of this approach.

Although this book is devoted to explaining the BOT method, build-own-operate (BOO) method of mobilizing private capital is increasingly being employed in many countries, including Mexico. The implications for project developers between the two methods remain virtually the same. The essential difference is that the project or facility is not eventually transferred to the government: it remains in the hands of the project developers. The BOO method is becoming increasingly preferred in situations where the government wants to privatize infrastructure without having to absorb facilities at the end of project concessions periods, such as is the case for BOT projects. The BOO method is less attractive than BOT for road or highway projects because of the question of land ownership. However, BOO is becoming increasingly attractive for public utilities projects.

## CONTRACTUAL RELATIONSHIPS

In theory, the commercial agreements that underlie build-operate-transfer (BOT) are fairly simple. The steps to the BOT approach are as follows. A project development consortium of private contractors, financiers and investors is formed. Consortium members design, finance, build and operate the infrastructure facility. After a specified period, anywhere from 10 to 30 years, the project developers are expected to have repaid the project debt and earned a profit. They then hand the facility over to the host government. There are many variations, but the end use and end user are always predetermined. In more formal terms, BOT can be described as a fully risk-allocated, design-build contract, coupled with a sale of the project to the users on the basis of a pre-established commitment and contract.

In practice, BOT schemes can be quite complex because countries such as Mexico present special problems for any commercial operation. For example, investments are usually in hard currencies, while revenues are in local currencies. It is, therefore, necessary to guarantee that sufficient foreign exchange will be available to service foreign loans and equity investments.

Collecting accounts receivable can also be a problem, particularly when the product is perceived as a public utility. Collection can be difficult, for example, in electricity or water treatment projects where disconnection of delinquent customers is not always an option. For this reason, toll roads, public transit systems or other fare box operations are seen as better risks because they involve cash receipts received directly from the public.

BOT facilitates project financing by giving the lender access to the cash flow generated by the project but not to the revenue of the companies running the project. This does not ignore the project developers record, however, since lenders prefer to finance projects that are run by people in whom they have confidence.

Financing any major infrastructure project involves a web of contractual relationships between a number of parties. Assuming that the prerequisite cash flow is available to finance a project, the success of a BOT arrangement depends upon an appropriate and acceptable allocation of risk among the parties.

A project developer has to structure relationships with shareholders, lenders, governments, contractors, equipment suppliers, insurers, plant operators, fuel suppliers and others. These relationships go beyond the formal contractual arrangements involved. All of the stakeholders must see themselves as partners in the project. Moreover, the relationships must address the needs of each player and present them with risks that they perceive as manageable and in keeping with the rewards.

## GOVERNMENT

One of the distinguishing features of a build-operate-transfer (BOT) infrastructure project is that agreements with the host government are always required. The most critical agreements are those which grant a concession to the project developer, and those that provide for a future transfer of ownership. In this context, concession means that the host government grants rights and privileges to the project developer that otherwise belong exclusively to the state. Clearly, such arrangements must be very explicit. The transfer of ownership typically occurs only after 10 to 30 years.

Many BOT projects never get off the ground because the project developers and the host government have differing needs and expectations. It is perfectly natural for project developers and governments to have many conflicting interests. The challenge for project developers is to create a BOT arrangement that can balance these differences.

## CONFLICTING OBJECTIVES IN BUILD-OPERATE-TRANSFER PROJECTS

Objectives of project developers	Objectives of host government
<ul style="list-style-type: none"> <li>■ to minimize operating costs</li> </ul>	<ul style="list-style-type: none"> <li>■ to ensure project assets are maintained to preserve the residual value of project assets</li> </ul>
<ul style="list-style-type: none"> <li>■ to maximize revenue</li> </ul>	<ul style="list-style-type: none"> <li>■ to control revenues by preventing excessive charges to consumers</li> </ul>
<ul style="list-style-type: none"> <li>■ to maintain positive cash flow</li> </ul>	<ul style="list-style-type: none"> <li>■ to pay only according to results</li> </ul>
<ul style="list-style-type: none"> <li>■ to achieve a stable legal environment</li> </ul>	<ul style="list-style-type: none"> <li>■ to require project developers to comply with all present and future laws and government policies</li> </ul>
<ul style="list-style-type: none"> <li>■ to enjoy the right to use project assets to maximize profit</li> </ul>	<ul style="list-style-type: none"> <li>■ to require project assets be used to maximize economic benefits to the host country</li> </ul>
<ul style="list-style-type: none"> <li>■ to transfer project risks to the host government</li> </ul>	<ul style="list-style-type: none"> <li>■ to transfer project risks to the joint venture companies</li> </ul>

Despite the inevitable differences, governments have very strong incentives to enter into private-public partnerships, including BOT arrangements. The benefits to government include the following:

- off-budget financing;
- projects built at a much lower capital cost to government;
- greater probability of efficiency in construction and operation because the private sector has stronger incentives for cost control;
- risk assessment done by the market rather than the political system;
- risks are transferred to project developers, rather than the government (except if there are revenue guarantees); and
- greater probability that the underlying technology will be commercialized in the host country.

## CONTRACTORS

The relationship between the contractor (who may also be a project developer partner) and the project developer is usually centered around a fixed-price design-build contract. This reduces some of the risks to the project developers and the host government. A number of variations are possible to share the risk. For example, there might be both an estimated price and a maximum price, backed up by penalties for non-performance.

## EQUIPMENT SUPPLIERS

Equipment suppliers usually operate as subcontractors to the design-build contractor during the construction phase. Suppliers will normally also provide spare parts during the life of the project. In build-operate-transfer (BOT) projects, tried and tested technology is generally preferred. If the design has worked in one place, it will probably work reasonably well in another. Equipment based on unproven technology carries risks that make both governments and lenders uncomfortable.

Suppliers may participate as partners in project development companies in BOT projects. This is a means of generating new equipment and parts sales. Another advantage of taking an ownership position is that early involvement in the project helps the supplier to influence the selection of plant and equipment.

A disadvantage of ownership is that significant participation requires a larger initial investment than the supplier would ordinarily have to make. Moreover, the supplier bears many of the development costs and risks that are normally covered by the owner of the utility. Clearly, the supplier must balance risk with rewards in deciding whether to participate.



## **THE PLANT OPERATOR**

The project will be run by an operating company under a contract with the project developer. In many cases, these two players are actually part of the same company. The plant operator should be involved in the project at an early stage because it is in a position to make a considerable contribution to the design. This will help to ensure that the plant is designed with an emphasis on operating efficiency.

## **LENDERS**

Project shareholders contribute equity, but usually not more than 25 percent of total capital costs. Lenders provide the balance. They usually require an assignment of long-term contracts between project developers and their customers and/or suppliers. For the lenders, the user fee agreements are the most important because they guarantee project revenue. Agreements with suppliers ensure that project costs will not get out of control.

## **PURCHASERS OR CUSTOMERS**

In order to secure financing, any build-operate-transfer (BOT) project must have solid agreements with purchasers or regular customers of the project. Purchase agreements for the life of the project address the concerns of lenders that there will be revenue generated from the project to service the debt.

## **INSURERS**

Insurance can offset some of the risks. It is helpful to bring in insurance advisors at an early stage to consider when insurance might be obtained, and what type is available. Insurance, however, does not reduce the need for the project agreement to properly identify and assign risks to the various players.

## DEVELOPING A BUILD-OPERATE-TRANSFER PROJECT

The development of a build-operate-transfer (BOT) project requires the integration of a series of strategic financial, technical, commercial and legal processes. Project development usually includes at least six stages:

- The host government's commitment to the project is confirmed. This involves selling the project developer's credentials, as well as ensuring that the government understands the full dimensions of the BOT arrangement.
- Pre-feasibility studies to determine whether the concept presented by the host government is sufficiently feasible to proceed further.
- If pre-feasibility studies are positive, formal feasibility studies are prepared. They analyze available technologies, economic and financial viability, sources of supply and other key components. Project development company partners may be part of the initial project team, or they may be brought in to meet specific project requirements.
- Detailed engineering studies are completed to estimate project costs.
- A financing plan is developed for potential investors and lenders. The roles and credentials of the partners are identified. A lender is identified, and preliminary terms are set.
- Finally, all contracts and loan documents are completed.

The development process will take approximately 18 to 24 months before the first shovel is in the ground. There are many financial issues to be worked out. The most important considerations include allocating risk, setting up an appropriate financial structure and finding sources of financing.

BOT projects involve a type of limited recourse financing. This means financing on the basis of project risks and cash flow, with only limited recourse to, or guarantees from, the project developers.

Putting together a BOT financing package requires a series of careful analysis. A detailed risk analysis is used to assess whether all the risks will be satisfactorily allocated. An economic analysis is conducted to demonstrate that there are acceptable rates of return for the project developers. Finally, a financial analysis demonstrates adequate cash flow for the lender. This is a complex process, but one which is necessary to assure that the objectives of the lenders, governments, investors, contractors, suppliers and users have all been assessed and reconciled.

## RISK

Before a build-operate-transfer (BOT) agreement is packaged, a detailed analysis must be conducted. Risks are associated with three phases of the project:

- pre-commissioning risks;
- post-commissioning risks; and
- risks that apply throughout the project's life.

All of these risks must be analyzed by the project developers, both for their own satisfaction and for the benefit of investors and lenders. Reducing and properly allocating all risks is essential if the BOT project is to proceed beyond the planning stages. This is accomplished by balancing the contractual obligations of all participants and, where feasible, the judicious use of insurance.

## MAJOR RISKS OF BUILD-OPERATE-TRANSFER INFRASTRUCTURE PROJECTS

Pre-commissioning risks	Post-commissioning risks	Lifetime risks
■ shareholders abort project	■ output shortfall due to physical damage, strikes, operational problems	■ host country currency is devalued
■ late start-up	■ fuel shortages cause output shortfalls	■ increased interest rates
■ cost overruns	■ slower start than expected	■ nationalization and expropriation
■ delays arising from <i>force majeure</i>	■ output prices lower than forecast	■ currency convertibility is not maintained
■ damage to equipment	■ inflation and/or operating costs exceed forecasts	■ local partners/shareholders fail to fulfill joint venture responsibilities
	■ changes in fuel supply arrangements	
	■ import restrictions are imposed	
	■ tax regime difficulties	
	■ changes in legislation	

## FINANCIAL STRUCTURE

Lenders will judge a project's ability to withstand the risks involved, especially critical ones, by looking primarily at its coverage and debt-service ratios. The coverage ratio is the net present value of the future after-tax cash flow over the life of the project, divided by the loan balance which is outstanding. The debt-service ratio is the annual cash flow available for debt service divided by the annual debt service. The ratios which a lender will require depend on specific project risks and those other guarantees it is able to obtain from the joint-venture companies.

Investors will be interested in the internal rate of return offered by the project. The acceptable rate will depend mainly on the project and on the risk-sharing arrangements among the joint-venture partners.

Completion guarantees are normally from the joint venturers. These are provided through performance bonds purchased by them and assigned to the lenders during the construction phase.

Lenders' requirements for the post-commissioning period include assignment of supply contracts, assignments for plant output, and insurance policies. The need to assess the project from the lender's point of view is discussed in greater detail in a separate section of this business guide.

## SOURCES OF FINANCE

There is no single formula for financing build-operate-transfer (BOT) projects. The strengths of the individual partners and the amount of equity that each provides can vary enormously from one project to another. It is possible to launch a BOT project with as little as 10 percent equity. But normally, equity should be at least 20 percent. It is rare for project-developer equity to exceed 25 percent of total capital costs.

BOT infrastructure projects can be financed in a number of ways: a public offering in the private sector, entirely privately, or through a combination of host government and private capital. With government financing, public agencies or authorities provide debt and sometimes grants. Funding by the host government, however, is increasingly scarce. Indeed, this is one of the main reasons, combined with the retreat from this market by the large commercial banks, why BOT might be considered as an approach for an infrastructure development in the first place. Private financing is much easier to raise when projects have strong cash flow combined with low risk.

The traditional sources of public and private financing for infrastructure projects include export credits, the medium-term syndicated loan market, international development financial institutions, national aid agencies, and domestic capital markets.

## SOURCES OF BUILD-OPERATE-TRANSFER PROJECT FUNDING

Senior debt	commercial banks, government banks, international financial institutions
Subordinated debt	commercial banks, equipment vendors, investors
Preferred equity	international financial institutions, export credit agencies
Equity	investors, equipment vendors, fuel suppliers (for power projects), constructors, users, financial subsidiaries of major corporations

It is helpful to identify a local proponent, such as an equipment supplier or a development institution, which is particularly anxious to see the project proceed, and can serve as a catalyst for the project.

For major infrastructure projects, procuring a combination of export credit agencies, bilateral financial institutions and international financial institutions is the norm. This is not necessarily the case, however, for projects such as toll-road projects that tend to be self sufficient. They are becoming more and more acceptable to commercial lenders. Wastewater treatment plants, where contractual arrangements are guaranteed by the state or federal authorities, can also be privately financed.

## PACKAGING A BUILD-OPERATE-TRANSFER PROJECT

### CONDITIONS FOR A VIABLE BUILD-OPERATE-TRANSFER PROJECT

- There must be a strong need for the project which has been perceived by government officials who have influence.
- There must be adequate government financial guarantees coupled with sufficient political will to produce the necessary concessions for the private sector to become involved.
- Substantial contractors or groups of contractors and suppliers must be available to enter into turnkey design/construct contracts.
- The project developer must possess all of the technical expertise to design, build and operate the project.
- The revenue stream must be adequate to support the project throughout its life.
- The project must be able to be financed on a limited-recourse basis on the strength of its own assets and revenues.

A build-operate-transfer (BOT) infrastructure project developer views the project as a bundle of rights, risks and obligations which must be priced and allocated among the project participants. Each of the parties must assure themselves that the potential benefits outweigh the risks. The parties try to reach consensus by allocating the risks in such a way that the project is viable. Otherwise, it will not proceed.

A number of fundamental requirements must be met before a project can proceed to the planning stages (see box). Assuming these basic pre-conditions are met, the parties can proceed to package a BOT infrastructure package.

Successful packaging means compiling all of the political, technical, commercial and financial elements of a project. It means ensuring that adequate funds have been both committed and advanced. Packaging brings together all of the elements of evaluation, promotion, development, financing and initial implementation of projects. Ultimately, proper packaging ensures that the project is viable by making sure that the interests of all the parties to the deal have been balanced. The principal conditions for viability are discussed in the following sections.



## CREDIBILITY OF THE PROJECT DEVELOPERS

It is essential to quickly establish the credibility of all of the members of the project development group. The project will not proceed if the group is not taken seriously by the host government. Choose the contractors carefully, and bring them in at the outset. Make sure that the government authorities involved believe in the group's capabilities. In particular, be prepared to demonstrate technical competence and an established track record. A significant degree of local involvement helps to ensure that the project developers receive assistance and cooperation when they need it.

## GOVERNMENT SUPPORT

A successful build-operate-transfer (BOT) project requires strong leaders in both the government and the private sector. It is especially important that the government's decisions be fully implemented by all of its agencies and local authorities. This requires that all relevant ministries, regulatory bodies and departments are committed to supporting the project.

The government must assign responsibility for the project to officials with the necessary clout to push matters ahead. In particular, all planning consents and legal permits must be issued without delay. Public agencies often try to protect their own interests which are not necessarily enhanced by a successful private infrastructure project. Furthermore, many public agency officials will be extremely cautious to avoid any mistakes (whether real or perceived) on their part. The host government must have the practical ability to coordinate its own efforts and act in good faith. If the process becomes mired in politics, the confidence of the private sector group will be undermined and negotiations are likely to fall apart.

Another concern is whether the government officials involved have access to adequate professional advice. They must understand the technical and financial complexities involved. The prospects for a successful project are greatly improved if contractors and suppliers can deal with people in government who are in a position to make competent decisions.

Once the project developer has been selected to undertake the project, it should insist on exclusive negotiations and make sure that all of the relevant government agencies are included. The government must be prepared to accept some project risks and provide some resources. The bigger their stake in the project, the higher the priority they will give it.

## FOREIGN CURRENCY REMITTANCE

For the equipment suppliers and contractors, the project's viability depends on the freedom to remit foreign currency. They need to import materials and procure offshore technical services. They must pay for home-country overhead costs, and remit at least some of the profit from the venture.

The host government can authorize such transfers, but there are many steps involved. There must be a specific framework for foreign exchange conversion, and the risk for exchange rate fluctuations must be fully assigned. The package should include specific rights for remitting different forms of earnings, including dividends and the proceeds of capital disposal. There should be a provision for converting local earnings to hard currency without penalizing domestic users.

Ideally, it would be nice if debt financing could be entirely in local currency to mitigate the risks of devaluation. But, in fact, this rarely occurs as much of the debt is brought in internationally in foreign currency. Alternatively, the host government can absorb the costs of exchange rate depreciation.

## FREEDOM TO IMPORT

Suppliers and contractors need to know whether they will be free to import materials and equipment. They must know about all duties and taxes as well as any other restrictions. This applies both to construction inputs and the spare parts and services that will be required for future maintenance.

## USE OF LOCAL LABOUR AND CONTRACTORS

The project will not be viable unless the project developer has the freedom to bring in expatriate technical personnel and contractors as required. The need to do this depends partly on the supply of local personnel and the skills they possess.

In straight civil engineering projects, local contractors can usually contribute substantially. They often know how to deal with local circumstances better than foreign contractors. However, in build-operate-transfer (BOT) projects, a large proportion of the equipment will likely be imported because the use of proven systems reduces risk. Therefore, a larger participation by foreign contractors and their employees will be required.

## **LAND TENURE**

Land tenure must be assured for the life of the project. If the land is leased, the premises must be fully defined with provision of all easements and access. Responsibility for pre-existing site conditions must be defined.

## **THE LEGAL ENVIRONMENT**

The legal environment plays a major role in determining a project's viability. The potential for discriminatory taxes and changes in legislation or regulations should be considered closely. In any event, all of these legal conditions must be known before the project is undertaken. The project group should be free to carry out construction and maintenance either in its own right or with a local joint venture partner of its own choice. There should also be protection for proprietary or intellectual property rights of the sponsors.

## **INSURANCE**

As far as possible, insurance should be purchased to cover risks which the host government will not accept. An insurance specialist should be consulted at an early stage of the pre-feasibility study. Insurance does not, however, eliminate the need to carefully allocate project risks among the parties.

## **PROJECT MANAGEMENT**

In order for a project to be viable, there must be a plan for its effective management. There must be clear lines of management authority and no confusion about who will be in charge. The right people with both technical and communications skills must be brought in at the right times. There must be close coordination and supervision of technical, economic and commercial elements of the project.

Contractors must have incentives to perform, including penalties and bonuses for time and cost performance. Regardless of the contractual arrangements, a high level of commitment, perseverance, and good faith on the part of everyone involved is a major asset that contributes to the viability of any project.

## **SPECIAL CONSIDERATIONS FOR POWER PROJECTS**

Over the past few years, the number of private power generation facilities throughout the world has grown rapidly. Project developers are combining project financing techniques with long-term power sales agreements through build-operate-transfer (BOT) arrangements. Large multinational firms in the power business such as Asea Brown Boveri (ABB) and General Electric (GE) are developing and owning worldwide private power stations.

Power projects involve a number of special risks and affect their viability. Such projects tend to have very high capital costs, with a high risk of cost overruns. The outputs of the project are generally sold to a fixed set of customers. In addition, power projects are vulnerable to interruptions in their fuel supply and are dependent on local providers of maintenance and other services. These additional risks must be dealt with in the BOT package if the project is to be viable.

### **TURNKEY CONSTRUCTION CONTRACTS**

Construction of power projects should be carried out using a turnkey construction contract with a single point of responsibility. This means that the risks of non-completion are borne by the contractor. The price should be either fixed or subject to a ceiling. There should be provisions for guaranteed completion and performance provisions. Penalties for non-performance should be backed up by appropriate bonding arrangements.

### **GUARANTEED FUEL SUPPLY**

It is essential that any power project has a secure source of fuel. In this context, security means both assured delivery and predictable pricing over the life of the project. The availability of fuel transportation must also be guaranteed. Fuel prices should be linked to revenues, or alternatively, power prices should be linked to fuel costs.

### **FIRM POWER SALES CONTRACTS**

Agreements should include take-or-pay arrangements. For sales of steam, a take-if-tendered contract is desirable, with a term equal to the life of the project.

# ASSESSING FINANCIAL FEASIBILITY

## MAJOR RISK ASSESSMENTS FOR A BUILD-OPERATE-TRANSFER PROJECT

- developer risk
- economic feasibility risk
- risk of non-completion
- market risk
- risk of feedstock supply
- production risk
- environmental risk
- sovereign risk

One of the major risks facing a prospective build-operate-transfer (BOT) infrastructure project is that the project developer will not be able to find sufficient funding to implement the project. The availability of financing also has a very strong influence on the contractual structures employed. Lenders may easily place conditions upon financing that must be considered when contractual arrangements are being finalized.

Developers of BOT projects should, therefore, seek professional financial advice at a very early stage of the project. The best advice is to lock up financing before the project proceeds too far. Ideally, this should be done before product and oil supply or feedstock contracts are finalized, and definitely before final selection of equipment suppliers.

Before proceeding with detailed risk analyses, the first consideration is whether the host government is providing a sovereign guarantee and, second, whether foreign lenders will be willing to accept the sovereign guarantee of the host country, particularly on a long-term basis. One must also consider what the real value of the sovereign guarantee is, particularly in a country where the government is providing guarantees to several projects.

A further consideration is that lenders in the international market operate under internally-established country limits. This will affect their interest in a particular project, regardless of any specific project risk analysis.

If it is determined that the sovereign guarantee of the host country is acceptable to lenders and that external guarantees against political risk are available, the evaluation of specific risks from the lender's perspective can proceed. This is sometimes called a financing risk analysis because it quantifies the possibility that the sponsor may fail to obtain funding. The following sections outline the major categories of risk to be included in this analysis.

## DEVELOPER RISK

The project developer may be a single company or group of companies. A harmonious relationship between lender and developer is critical. Lenders are generally reluctant to make loans if the project developer is at all doubtful. Lenders will consider the following factors in relation to each developer:

- balance sheet strength;
- past and projected earnings performance;
- technical and managerial skills; and
- track record in similar projects.



These factors are particularly important if the project developer is operating in a country for the first time. Lenders must have confidence that the developer will complete the project on time and on budget and that they will operate the project efficiently. All three elements are essential if cash flow is to meet debt service requirements as well as provide a satisfactory return to shareholders.

## ECONOMIC FEASIBILITY RISK

Lenders need to be satisfied that the project is economically feasible. They will usually expect to see a feasibility study completed by the project developer. They need assurance that sufficient cash will be generated from project operations to cover operating expenses and service the debt, as well as provide a return on the equity invested. They also want to see that the project is sufficiently robust to withstand adverse developments such as demand fluctuations, price changes and contingencies such as rising interest rates or falling exchange rates.

A key question is: who will accept the foreign exchange risk? The ensuing analysis should test cash flow projections using base case, best case and worst case scenarios. The sensitivity of profitability to changes in each variable should be tested, with probability estimates applied to each case.

## RISK OF NON-COMPLETION

The essence of limited-recourse or project financing is that loans are repaid only from the cash flow of the completed project and not from the cash reserves of the owners themselves. The risk is that non-completion means no cash flow and, therefore, no ability to repay the owners from the revenues generated by the project. For this reason, many lenders require project developers to guarantee all debt prior to completion of the construction and start-up of the operation.

Other lenders are prepared to accept the completion risks, provided that the project developers are well-established and that the underlying project is inherently robust and relatively uncomplicated. Certain elements in the build-operate-transfer (BOT) arrangement can also help to offset the lender's reluctance to accept completion risks. They include the following:

- fixed price turnkey contracts for construction and equipment;
- developer undertakings to meet cost overruns;
- clear commitments to achieve completion;
- performance bonds and liquidated damage undertakings;
- penalties for late performance;
- insurance protection against *force majeure* during construction; and
- assignment of contract benefits to lenders.

The need for performance bonds is especially important. Lenders generally will not advance any loans without them. It is their guarantee that the project will be completed on time and on budget. Liquidated damages are usually not part of the performance guarantee but are the responsibility of the contracting party.

The construction performance bond is provided by the construction contractor (who may be part of the project development group) and is issued by a surety company for a percentage of the construction contract value. The percentage can vary but is rarely in excess of 50 percent of the contract value. The insurance market, where these bonds are reinsured, sometimes sets limits on the amount of the bond.

## **MARKET RISK**

Market risk will be assessed by the lender when it is relevant to the project. This category includes projected local demand and prices for the product. Related risks are continued market access, transportation issues, and the number and economic viability of the potential buyers.

## **RISK OF FEEDSTOCK SUPPLY**

Regular supply of feedstocks at a consistent price is critical for project viability in an energy-related project. Lenders will require historic and projected demand/supply and price information, along with a plan for obtaining required supplies of feedstocks. They will generally want to avoid single source situations. Ideally project developers should have long-term feedstock supply contracts. If the feedstock source is from a single supplier of good credit standing, a supply or pay contract, in which the supplier must pay if the feedstock is not available, should be considered to offset this risk.

## **PRODUCTION RISK**

Production risks are similar to those involving completion, but such risks include the possibility that production will be interrupted. The following risk factors are usually considered:

- competence of the project manager;
- technology;
- labour skills; and
- plant maintenance.

Lenders will seek to reduce production risk by insisting on insurance coverage for all relevant risks including business interruption, machinery failure, third-party liability and workers compensation.

## ENVIRONMENTAL RISK

Environmental concerns have become increasingly important for almost every type of project. Compliance with local and international requirements is a minimum requirement. If multilateral lending agencies are involved, lenders will want to be certain that their environmental requirements are met. Insurance companies may also have their own environmental conditions.

## SOVEREIGN RISK

Sovereign risks can include confiscation, expropriation or nationalization with or without compensation. Related risks include:

- limitations on sales;
- limitations on expansion;
- currency devaluation;
- changes in exchange control regulations;
- restrictions on remittances;
- higher or discriminatory taxes; and
- duties or withholdings.

The most difficult areas of sovereign risk assessment are those resulting from political instability following changes in the controlling party or leader; disputes between government departments; or between federal, state and local authorities.

## INSURANCE

Lenders want to see that all insurable risks have been covered. In complicated project financing, it is frequently advisable to employ the services of a specialist insurance advisor to review all insurable risks and to provide an opinion about the risks that should be covered by the project developer.

## FINANCING PLAN

Lenders will carefully review the entire financing plan for the project. Project developer equity should be assured and a debt/equity ration set at realistic levels. Equity should normally be injected ahead of debt under the credit arrangement.

# MEXICO'S INFRASTRUCTURE CHALLENGE

## KEY ELEMENTS OF MEXICO'S NATIONAL DEVELOPMENT PLAN

- the construction of 15,000 km of new four-lane highway
- new drinking water, sanitary sewer and drainage systems for an estimated 3 million inhabitants per year
- the construction of 1,500 wastewater treatment plants
- doubling the generation capacity of installed electrical plants
- the expansion or installation of three industrial ports in the Gulf of Mexico and three more on the Pacific Coast
- the modernization of 15,000 km of railroad

The need to rapidly expand and modernize Mexico's infrastructure was recognized formally in 1989, when the Salinas government established the *Plan Nacional de Desarrollo*, National Development Plan. It sets priorities for an ambitious program of infrastructure development for the rest of this century.

Efforts to implement the *Plan Nacional de Desarrollo* have resulted in a rapid increase in private construction activity. Construction is the fastest growing sector in the Mexican economy, consistently outperforming the overall economy. The private sector now plays a major role in the construction of toll roads, power plants, water treatment facilities, ports, airports and railways.

## ROADS

Four thousand kilometres of highway have been built since 1988. Although Mexico previously had more than 230,000 kilometres of roads, only a very small proportion were paved multi-lane highways. About five percent were toll roads, and all were operated by the government.

Since about 80 percent of Mexico's exports are shipped by land, development of a modern highway system has received top priority. Government plans call for the construction of a network of 12,000 kilometres of toll roads running the length of Mexico.

A large share of highway construction has been shifted to the private sector, mainly through the *Programa Nacional de Carreteras de Cuota Concesionadas*, National Highway Concession Program. This program has resulted in an estimated US \$10 billion in spending on new toll highways. Already, 5,000 kilometres have been granted to private sector concessionaires, and most of which were expected to be in operation by early 1995.

Under the concession program, the project developer builds and maintains the road, collects the tolls, repays the project financing and agrees to turn the road over to the government on some future date. Normally, the concessionaire retains ownership of the highway for 10 to 12 years. The government guarantees the projected traffic and tolls, providing a minimum rate of return to the concessionaire. If the traffic is lower than projected, which has been the recent experience, the length of agreement is extended to compensate. The period can be shortened if traffic exceeds expectations.

## MEXICAN TOLL ROAD CONCESSIONS, 1990-1994

Project	Kilometres	Leading firm(s)
Estación don Magdalena	469	various
Ciudad Juárez-Chihuahua	374	various
Maravatio-Toluca bypass	340	ICA/Tribasa/GMD
Mazatlán-Culiacán	292	ICA/Tribasa
Cuernavaca-Acapulco	262	GMD/ICA/Tribasa
Mérida-Cancún	250	various
Torreón-Saltillo	245	ICA/Tribasa
Arriaga-Huixtla	209	various
Guadalajara-Tepic	194	ICA
La Tinaja-Acayucan	188	GMD/Pyrsa
Cadereyta-Reynosa	175	various
Monterrey-Nuevo Laredo	171	Protexa
Zapotlanejo-Lagos	152	Alfa-Omega
Guadalajara-Colima	148	ICA
Others	1,776	various
<b>Total</b>	<b>5,245</b>	
<b>Under construction mid '94</b>	<b>1,231</b>	

Source: Roberto Carrillo. "Construction: The Fastest Growing Sector in Mexico". *Institutional Investor*, June 1994.

## ELECTRICAL POWER

The build-operate-transfer (BOT) model has been applied gradually to electrical power projects. The delay in moving to private-public partnerships reflects the continuing monopoly of the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, and also the dominant role played by *Petróleos Mexicanos (PEMEX)*, the state-owned oil company. This is beginning to change.

Although the *CFE* maintains its monopoly over power sold to the public, new regulations were introduced in 1993 to expand the opportunities for small-scale private power generation. Private companies are now permitted to generate electricity for their own industrial use, as long as any surplus power is sold to the *CFE*.

In addition, the construction of all generation and transmission projects of more than 230 KV will now be contracted to private companies, or joint venture constructors, who will build and operate the projects. This means that in the future, foreign and domestic private companies will be responsible for a large proportion of electrical power generation. As of November 1994, over 275 new CFE power generation projects were ready to be put up for proposal by private sector developers. Many of these new projects will follow the BOT model.

Mexico will need to double its electricity-generating capacity by the year 2006 to meet the growing needs of the population. The government is anxious to obtain foreign capital for power projects, and has announced that it will enter into investment protection agreements with foreign governments to reassure foreign utility companies that their investments will be protected by law. The provisions of the North American Free Trade Agreement (NAFTA) should give Canadian and U.S. suppliers a competitive edge in undertaking these projects.

## WASTEWATER TREATMENT

Concessions for privately-owned wastewater treatment plants, using build-operate-transfer (BOT) arrangements, are increasingly being approved. Many Canadian companies are participating in these projects.

An example is a group of Canadian companies including Aero-Flo Environmental, IPL International and the Wastewater Technology Centre of Burlington, Ontario. These companies are working together on a BOT wastewater treatment contract for the *Municipio de Gómez Palacio*, Municipality of Gómez Palacio. The project will use the BOT model, and will be built in conjunction with a local joint venture partner and two Mexican construction companies.

The Wastewater Technology Centre is operated by Rockcliffe Research Management Inc., which is majority owned by Philip Utilities Management Corporation (PUMC). This company was recently awarded a ten-year contract to operate the water and wastewater treatment facilities of the regional municipality of Hamilton-Wentworth, Ontario. The company believes that there is considerable potential for build-operate-transfer (BOT) arrangements in Mexico, and it is developing proposals for four other projects.

## BUILD-OPERATE-TRANSFER PRACTICES IN MEXICO

Mexican build-operate-transfer (BOT) arrangements are most common in the construction of toll roads. The experience in this area is setting precedent for comparable projects in other sectors.

In most cases, BOT participation by private sector toll road contractors in Mexico has not involved any cash outflow for them. Profit from construction is typically retained in the project as the construction firm's equity in the venture. This is commonly referred to as sweat equity. This contribution is usually in the range of 25 percent of the total project cost, with the balance coming from other sources of financing.

Bank financing is usually secured by concession revenues and rarely guaranteed by either the concessionaire or its construction affiliate. Mexican financial groups have provided funding for toll road construction through highway bonds, commercial paper and equity-backed debt.

To finance its contribution, the government has used several mechanisms including contributions over time from the value-added tax generated by the project. Another approach is to provide an existing two-lane highway as equity in the project. This way, the concessionaire can expand it and collect revenues from it.

Once financing has been arranged, the concessionaire and the banks establish a trust for approving and paying construction expenses. The government carefully monitors the progress of construction according to previously determined specifications. Contracts are usually based on unit prices. Consequently, if the design is altered for a valid reason, the amount of construction increases as does the overall cost of the project. Such added costs, called change orders, are usually due to the government's incomplete design and are common in toll road projects. Concessionaires (project developers) may renegotiate an extension of the concession, and they must also finance the higher cost until the renegotiation is completed.

Once cash flow becomes reasonably predictable and sufficient to service debt, Mexican construction companies often try to reduce their equity investment in the concession. They do this through debt financing, equity reduction, equity placement or outright sale of their interest in the project. The Mexican government is committed to reducing the complexities of existing concessions and to avoiding future difficulties by awarding concessions on an integrated basis.

In the future, concession projects will probably be made more attractive to private investors. Increasingly liberal foreign investment regulations will open up this sector to a broader range of project developers. Companies from the United States, the United Kingdom, Italy and France are already pursuing opportunities in Mexico. There are, however, a number of barriers to entry and over the medium term most of them will focus on joint ventures with local firms.

## OPPORTUNITIES FOR CANADIAN COMPANIES

The opportunities for the participation of Canadian companies in build-operate-transfer (BOT) infrastructure projects have been concentrated mainly in toll roads, power generation projects and wastewater treatment facilities. Recently, public transit systems have also become the object of BOT arrangements involving Canadian companies.

### TOLL ROADS

The *Programa Nacional de Carreteras de Cuota Concesionadas*, National Highway Concession Program, has been in operation for about five years. Up to 5,000 kilometres of privately-owned toll highways have been built or are under construction.

Investors are finding that the traffic flow on some of these roads is not as high as expected because drivers are choosing alternate routes to avoid paying the tolls. One reason for this behaviour is the high price of the tolls. A one-way 400 kilometre trip from Mexico City to Acapulco costs almost US \$75. Under the terms of the program, the project developer's return is guaranteed, and concession periods have been extended to compensate.

For the most part, the companies that have participated in the program are Mexico's largest construction firms. Consortia of medium-sized companies have also successfully bid on concessions. Significant cost overruns have been reported. The Mexico City-Acapulco highway reportedly cost US \$1 billion, double the original estimate.

With Mexican interest rates ranging upwards of 90 percent per annum, concession owners and project developers are forced to seek international financing as well as contribute sweat equity from their own profits. Lack of experience in financial markets is cited as a problem. The government is considering extending the terms of concessions from their current 10 to 12 years to as much as 30 years.

The initial difficulties of the concession program create opportunities for Canadian firms for two reasons. First, now that builders are responsible for road maintenance over extended concessions, they are looking for more sophisticated road technologies to reduce long-run costs. The need to control construction costs has also been recognized. Second, Mexican financial institutions are demanding more precise engineering and financial planning. Mexican construction companies, which have traditionally operated in a protected environment, do not have a good track record in this area.



Consortia of medium-sized Mexican firms are beginning to play a larger role in the concession program. These companies are ideal candidates for joint ventures. Canadian firms can supplement a Mexican partner's capabilities with new technology, construction methods and management skills.

Highway concessions are awarded through a system of public tenders. First of all, tender announcements are published in major national newspapers. Prospective bidders can purchase specifications. Proposals must be accompanied by a letter of guarantee from a financial institution demonstrating financial support for the project.

## POWER GENERATION

Mexico's public electrical system is operated by the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, which has a monopoly for all electricity distributed to the public. The law was recently liberalized to allow the private generation of electricity for industrial purposes, but the *CFE* continues to supply some 90 percent of the nation's electricity.

More than two-thirds of all electricity is generated by thermal plants which burn coal, oil and gas. The *CFE* maintains two nuclear units at its *Laguna Verde* plant in the State of Veracruz, supplying about four percent of Mexico's electricity. Most of the rest of the nation's power comes from hydro and geothermal generation plants. Small-scale private generation plants tend to use gas turbine and combined cycle technologies. By 1999, the *CFE* expects to increase its installed capacity to about 44,000 megawatts, with a large part of the increase coming from dual fuel systems. *Luz y Fuerza del Centro (LyF)*, the Central Light and Power Company, is responsible for all distribution of electricity in Mexico City. This utility, which has 36,000 employees, is administered independently of the *CFE* and makes its own procurement decisions.

*Petróleos Mexicanos (PEMEX)*, the state owned oil company, also generates electricity. It has an installed generation capacity of roughly 2,000 megawatts, which is about two-thirds of its requirements.

Traditionally, electricity has not been supplied on a cost-recovery basis. Until recently, government subsidies provided two-thirds of the *CFE*'s revenue. This policy has led to the inefficient use of energy, with considerable losses within the distribution system itself.

Since the present electrical power reserve is only about six percent, the system must expand and modernize to meet Mexico's rapidly increasing needs. Many rural areas remain unserved. Thus, the government's objective is to extend service to two-thirds of the rural population over the next 20 years.

The government has acted to bring about the needed expansion and modernization. It has announced that subsidies will be eliminated by the year 2000 and that market prices will prevail. It has enacted the *Ley de Servicio Eléctrico*, Electric Service Law, which privatizes the construction and operation of larger electrical projects. New projects will be contracted to the private sector on a turnkey basis, and will no longer be managed by *CFE* staff. The *CFE* plans to build nearly 14,000 megawatts of new generating capacity, at a cost of US \$34 billion, between 1993 and 2000.

The *CFE* has implemented a build-lease-transfer (BLT) scheme in many of its large construction projects. Typically, a consortia of financiers, construction companies, operators, and equipment suppliers finance, design, build and operate a facility which is leased back to *CFE*. Canadian companies can consider bidding independently on a turnkey project, participating in a consortium, or acting as a sub-contractor.

Canadian companies also have expanded opportunities to provide construction and engineering services to a host of new private players in the electricity sector. In May of 1993, new regulations opened the electricity sector to independent power producers. The regulations now make it possible for private firms to build four types of private power plants:

- self-supply plants (those producing power exclusively for the owners' needs);
- independent power-production plants (those producing power to be sold to the state);
- small production plants (those producing power for rural communities); and
- co-generation plants (those producing electricity with vapour).

Taking advantage of the new law, a consortium formed by General Electric, Bechtel and El Paso Natural Gas is currently building a US \$600 million power plant in northern Mexico.

## WASTEWATER TREATMENT

Economic growth, combined with a much more aggressive approach by the Mexican government to environmental regulation, has created opportunities for Canadian companies in the Mexican environmental sector, particularly in wastewater treatment.

Mexico is faced with both a scarcity of natural water and severe water pollution from household and industrial sources. Two-thirds of Mexico's 320 river basins are considered polluted. Twenty of them receive almost 80 percent of all organic waste. This is creating a growing demand for water treatment systems. A related factor has been the rising price of fresh water, as the government has gradually removed subsidies and allowed market prices to prevail.

Municipal water treatment capacity is grossly inadequate. Most plants use the stabilization lagoon and activated mud techniques. Fewer than 400 plants treat only 19 percent of municipal discharges. Similarly, only about one-quarter of industrial wastewater is treated. The largest sources of industrial wastewater are the sugar, chemical, pulp and paper, and oil sectors. Together these account for about three-quarters of all industrial discharges.

The *Comisión Nacional del Agua (CNA)*, National Water Commission, has designated 104 municipalities as priority areas for upgrading existing facilities or building new plants. In early 1994, the *CNA* was examining proposals for 18 new treatment plants that would be operated under a concession program. The *CNA's* first objective will be primary sewage treatment. Secondary and tertiary treatment will follow in later phases.

The larger state enterprises are also potential customers. Both *Petróleos Mexicanos (PEMEX)*, the state-owned oil company, and the *Comisión Federal de Electricidad (CFE)*, Federal Electricity Commission, are investing in water treatment plants. During 1993, *PEMEX* alone requested proposals for six new treatment plants which will be constructed on a build-operate-transfer (BOT) basis.

It is estimated that only 16 percent of private industry currently treats its wastewater. New environmental legislation has stipulated that all wastewater must be treated and meet strict standards. New and existing industrial plants will be forced to install water treatment systems in order to comply with the new legislation. As a result, there is an emerging demand for shared water treatment facilities in industrial parks, and much of this investment is being underwritten by municipal governments.

## PUBLIC TRANSPORTATION

For these reasons, build-operate-transfer (BOT) financing has begun to appear in the public transportation field. For example, a consortium of four Mexican companies and Montreal-based Bombardier was recently selected to build a major new subway (or else an elevated transit line) in Mexico City, called *Tren Elevado Santa Mónica*. This will be a BOT operation, separate from the city's metro system. This 21 kilometre system will have 27 stations extending from the *Alameda Park* north to *Valle Dorado*. The system will use Bombardier's Advanced Rapid Transit (ART) technology.

Mexico is highly dependent on public transportation, particularly in the major urban centres, including Mexico City, Guadalajara and Monterrey. All three cities have modern subway or elevated light rail systems and all have long-term expansion plans. Increasingly, however, they lack the funds for expansion projects. In addition, it is often difficult for government-operated transit systems to offer the premium service needed to attract higher income commuters who presently travel by automobile.

The philosophy behind the use of the build-operate-transfer (BOT) approach is to provide higher quality service to people who normally commute by automobile. Fares will be reportedly in the range of US \$1.15, roughly four times the price of a ride on the metro. The new line services a relatively high-income area, and is considered a prototype. Some observers believe that as much as 100 kilometres of private rail systems could be feasible.

In late 1994, the Mexican construction firm *Ingenieros Civiles Asociados (ICA)* was awarded a BOT contract for a new electric train service in the City of Tijuana. Ownership of the line will be transferred to Tijuana after 20 years. Initially, 11.5 kilometres will be built, followed by two extensions of eight kilometres each.

Mexico's inter-city railway system is another potential source of BOT projects. The system has been allowed to deteriorate for a number of years, and ridership has declined. Recent government initiatives have given *Ferrocarriles Nacionales de México (FNM)*, Mexican National Railway, a mandate to modernize and privatize many of its services. The *FNM* has already begun to privatize its maintenance work by concessioning its 10 general workshops. The recently-announced stabilization program for the peso includes tentative plans to fully privatize the *FNM*.

## FINDING A MEXICAN PARTNER

Most Canadian firms entering the Mexican market do so through an arrangement with a local partner. In fact, a local partner is a must. Some companies contract with agents to provide a local presence in Mexico. But many companies involved in build-operate-transfer (BOT) projects go beyond agency agreements and use various other forms of partnering, sometimes called strategic alliances.

## THE BENEFITS OF PARTNERSHIP

Partnerships are essential in order to overcome the many obstacles to doing business in Mexico. They include cultural factors, corporate concentration and unfamiliarity with customer needs, as well as government regulation of foreign ownership. A local partner can complement a company's capabilities, and provide the expertise, insights and contacts that can mean the difference between success and failure.

Mexican companies generally welcome the interest of foreign partners. Such arrangements allow them to extend their horizons, learn international business techniques and gain access to new technology. Many Mexican companies already have alliances with foreign firms, and increasingly capital is replacing technology as the most essential contribution of the foreign partner. Particularly since the devaluation of the new Mexican peso, even the largest Mexican construction companies are experiencing problems raising funds.

A well-structured partnership offers concrete benefits to both sides, often translating the synergy gained into a competitive advantage. Benefits include the following.

- Each company focuses on what it does and knows best.
- The partners share the risk and, therefore, minimize the consequences of failure.
- Partnering extends each side's capabilities into new areas.
- Ideas and resources can be pooled to help both sides keep pace with change.
- Even small firms can use partnering to take advantage of economies of scale and achieve the critical mass needed for success.
- Through partners, a company can approach several markets simultaneously.
- Partnering can provide a firm with technology, capital or market access that it might not be able to afford or achieve on its own.

## TYPES OF PARTNERSHIP

Partnering can take many different forms. Agreements between firms may call for the transfer of technology, cooperation in research or project development, or the exchange of marketing rights. Sometimes firms provide equity to form a new, free-standing joint venture.

A joint venture is an independent business formed through the cooperation of two or more parent firms. Its basic characteristic is that it is a distinct corporate entity, separate from its parents. As such, it involves levels of organizational and managerial complexity that need careful consideration. The ownership split of a joint venture usually reflects the relative sizes and contributions of the partners. If ownership is split equally, it is usually because the partners are about the same size, and because each wants a strong voice in how the new company is to operate. A different equity split usually reflects unequal resource commitments.

Joint ventures have often been used as a way of avoiding restrictions on foreign ownership when entering a foreign market. In the case of Mexico, this is now less of a consideration given the liberalization of its economy and the relaxation of ownership restrictions governing direct foreign investment.

Nonetheless, forming a joint venture with another firm makes sense if the project requires commitments from the partners that are too complex and comprehensive to be spelled out in a simple contract. This is especially true of longer-term arrangements such as the operation of a build-operate-transfer (BOT) infrastructure project.

In a joint production agreement, companies cooperate to build a project or a number of projects. These agreements enable firms to optimize the use of their own resources, to share complementary resources and to take advantage of economies of scale. For example, many foreign engineering firms have entered joint production agreements with Mexican firms that have construction expertise.

## CORPORATE VEHICLES AND TAXATION

Foreign investments in Mexico are usually made through a Mexican corporation with variable capital, *Sociedad Anónima de Capital Variable*, abbreviated as *S.A. de C.V.* Another vehicle that is used occasionally is a limited liability company, *Sociedad de Responsabilidad Limitada* or *S. de R.L.* A third option is a general partnership with unlimited liability, *Sociedad en Nombre Colectivo* or *S. en N.C.*

Mexico rarely accords special tax treatment to foreign investors, foreign subsidiaries, or expatriate personnel working and residing in Mexico. As a result, it is generally preferable to operate in Mexico as a Mexican corporation in order to receive more favourable tax treatment. Specific taxes are levied on income, capital or commercial transactions and contracts or agreements.

The corporation must have at least five shareholders. Once all the necessary authorizations have been secured, the by-laws must be formalized in a public deed and executed before a public notary. Prior authorization from the *Secretaría de Relaciones Exteriores (SRE)*, Secretariat of Foreign Affairs, is required to form a corporation or business entity.

Canada and Mexico have entered into a double taxation agreement that has been ratified by both governments and only awaits passage of the required legislation. This tax treaty with Canada was the first such international tax treaty entered into by the Mexican government. In setting up a partnership, it is important to consider how to take advantage of the tax regimes of both countries. Proper planning can greatly reduce the tax burden, and it is wise to consult tax advisors in both Canada and Mexico.

## CORPORATE TAXES

The corporate income tax rate was reduced from 42 percent in 1989 to 35 percent in 1991, making it fully competitive with rates in both developing and developed countries. Taxpayers in Mexico must apply for a federal taxation registration number. For fiscal purposes, distributable profits are accrued at the point where they are effectively remitted to the head office. No further tax is imposed on income already subjected to corporate income tax.

## PERSONAL TAXES

Mexico recently imposed an income tax on non-residents who work 15 days or more in Mexico during a 12-month period. The tax is due regardless of whether the salary is paid by a non-resident employer or a Mexican entity. The regulations are vague in the definition of what constitutes a day's work or how the tax will be collected. The regulations imply that the employer is required to withhold 30 percent of the non-resident's gross salary. A Mexican tax expert can determine the extent of the fiscal impact on the company.

Mexico is striving to make its tax system more competitive, and is taking strong collection enforcement measures. Since tax laws are complex and subject to change, it is advisable to consult with a professional tax advisor in Mexico prior to establishing a new operation there.

## DEVELOPING A PLAN

There are many reasons why companies pursue partnering arrangements for build-operate-transfer (BOT) projects. A company contemplating moving into Mexico should first assess its own corporate strategy. The objective is to decide what role the Mexican market will play in the company's overall plans. The Canadian company's strategy could range from pursuing a role as project developer or lead company in a project development consortium, to acting as a supplier, or subcontractor to the project developer. In general, leading a BOT project will require a large commitment of resources. Serving as a component supplier to a local engineering or construction firm, on the other hand, requires specialized expertise.

Once company managers have a clear sense of what they expect to gain from Mexico, the next step is to assess the firm's competitive strengths and weaknesses. Does it have the skills and resources to succeed in Mexico, in the face of different customs, values, and ways of doing business? What elements are missing?

A good way to start is to itemize the qualities and resources that the ideal partner should possess and then consider how that contribution might be structured. Entering a partnership without a clear set of objectives may result in the loss of control over its direction. Developing a clear plan before beginning to look for a partner can minimize these dangers.

## **BUILDING A TEAM**

When a decision has been made to seek out a Mexican partner, the company will need to assemble a team to implement this strategy. The immediate goal is to find a suitable partner and negotiate an agreement. The team should be drawn from a variety of areas and management levels, so it will understand all the issues that might affect the partnership.

The team must be familiar with the company's situation. It will have to prepare draft agreements as well as negotiate positions and assess the qualifications of prospective partners. Team members must also have the sensitivity and confidence to be able to bridge cultural gaps. In cross-cultural communication, nuances, the misinterpretation of body language and even humour can quickly become major obstacles.

Every team needs a leader. The firm should appoint at least one person with enough clout to ensure things happen. The leader becomes the key catalyst for and promoter of the partnership within the firm. He or she is the driving force, taking responsibility for its creation and often serving as the chief negotiator.

## **FINDING THE RIGHT PARTNER**

Many Mexican firms are open to partnering. Mexican companies see joint ventures and other forms of partnering as a good way to acquire state-of-the-art technology, design expertise and managerial know-how. They also perceive partnerships as a way to access foreign markets. It is essential, however, for the Canadian company to learn to quickly distinguish between genuine potential and mere enthusiasm.

The right partner is one that complements the Canadian company's capabilities so that the venture has a complete set of the skills and resources. In addition, the organizations must be able to work together harmoniously and effectively.

A critical issue is how much cooperation will actually be required. The amount of collaboration tends to increase with the uncertainty and complexity of a venture. Similarly, levels of interaction increase with the number of projects involved and the number of other objectives of the partnership. Close cooperation will also be required if the partners are characterized by any striking dissimilarities.

For example, special partnering arrangements may be required to compensate for substantial differences in company size. The smaller partner may prefer to enter into a joint venture that has considerable autonomy. Cultural differences will also have to be overcome. There are always differences in operating philosophy, attitudes, practices, and structures that make each company unique. These must be accommodated in any partnering arrangement.



There are a number of ways to identify prospective partners. A good place to start is any existing business contacts in Mexico, especially any which are in the same industry. Basing a partnership on an existing business relationship means that both companies already understand each other's ways of doing things. There will be previously-established personal ties and familiarity with each other's skills, resources and values.

Other sources of contacts include suppliers, customers, industry associations, consulting firms, financial institutions and government officials. The trade commissioner at the Canadian Embassy in Mexico City and the satellite office in Monterrey can also help to identify candidates and arrange for introductions. In addition, these sources can refer Mexican advisors such as lawyers and accountants who may be needed to conclude a deal.

Each partner prospect must be carefully screened. In the final analysis, the overriding consideration must be the compatibility, commitment and credibility of the potential partner. If none of the prospects are compatible, reconsider alternatives such as short-term contracts, mergers, acquisitions, or a greenfield investment.

## **NEGOTIATING THE DEAL**

Every partnership begins with negotiations. They set the tone and create the structure of the relationship. Effective negotiations depend upon honesty and frankness, because cooperation requires an atmosphere of mutual respect and trust. Trust, however, does not mean ignoring difficult questions or brushing aside serious reservations. Clarity builds trust. Avoiding important and legitimate concerns leads to unease and suspicion.

Negotiations require a careful balance between the roles of senior executives and technical staff. Team members with a superior grasp of technical, operational and legal details should be involved from the outset. Senior executives have been known to avoid raising thorny issues to maintain a pleasant, collegial atmosphere. They do not always have a detailed understanding of the practical problems of day-to-day management. And they may assume that difficult details will be ironed out later.

Senior executives, on the other hand, have a broad strategic understanding and the clout to keep talks on track and break deadlocks. Their involvement should come at a strategic point in the discussions. The composition of the potential partner's negotiating team is one way to judge when the time is right.

It is common to prepare an interim agreement such as a memorandum of understanding. Typically, this is a brief statement of parties' intentions, and a summary of the timing and ground rules for the rest of the negotiations. A memorandum of understanding can also protect the confidentiality of business information and prohibit either company from entering into parallel negotiations with competitors.

The partnership agreement itself should anticipate as many potential problems as possible. The success or failure of any partnership depends on meeting the objectives of both sides. To develop a stable arrangement, the parties need to be clear not only about their own goals but also about those of their potential partner. This does not mean that the parties must have the same goals. It is enough, and sometimes preferable, that their goals are complementary and fit into an overall business strategy.

No matter how careful the negotiations, it is unlikely that every contingency can be provided for in the initial agreement. Mexico's business environment is changing rapidly and the contract will have to evolve as conditions change. A flexible agreement requires flexible partners, and both must be open to ongoing revisions. In successful partnerships, the negotiations never really end.

Identifying the right partner and negotiating the right agreement requires a substantial investment of time and resources. But it will be repaid many times. This effort will help to avoid delays, misunderstandings or even the breakup of the partnership. And it will set the stage for a viable and balanced relationship that can help both partners to meet their corporate objectives.

## 10. KEY CONTACTS

### CANADIAN GOVERNMENT DEPARTMENTS AND SERVICES IN CANADA

#### DEPARTMENT OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE (OTTAWA)

Department of Foreign Affairs and International Trade (DFAIT) is the Canadian federal government department most directly responsible for trade development. The InfoCentre should be the first contact point for advice on how to start exporting. It provides information on export-related programs and services, quickly resolves export problems, acts as the entry point to DFAIT's trade information network, and can provide copies of specialized export publications to interested companies.

##### InfoCentre

Tel.: 1-800-267-8376 or (613) 944-4000

Fax: (613) 996-9709

FaxLink: (613) 944-4500

InfoCentre Bulletin Board (IBB):

Tel.: 1-800-628-1581 or (613) 944-1581

The Latin America and Caribbean Trade Division promotes trade with Mexico. There are several trade commissioners at the Embassy of Canada in Mexico City, as well as a satellite offices in Monterrey. Trade commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping identify suitable Mexican firms to act as agents, and compiling credit and business information on potential foreign customers.

Latin America and Caribbean Trade Division (LGT)  
Department of Foreign Affairs and International Trade  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, ON K1A 0G2  
Tel.: (613) 996-5547  
Fax: (613) 943-8806

#### INTERNATIONAL TRADE CENTRES

International Trade Centres have been established across the country as a convenient point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of Department of Industry (DI), the centres operate under the guidance of DFAIT and all have resident trade commissioners. They help companies determine

whether or not they are ready to export, assist firms with marketing research and market planning, provide access to government programs designed to promote exports, and arrange for assistance from the Trade Development Division in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you.

##### British Columbia:

Scotia Tower  
900-650 West Georgia Street  
P.O. Box 11610  
Vancouver, BC V6B 5H8  
Tel.: (604) 666-0434  
Fax: (604) 666-8330

##### Yukon:

300 Main Street  
Room 210  
Whitehorse, YT Y1A 2B5  
Tel.: (403) 667-3925  
Fax: (403) 668-5003

##### Alberta and Northwest Territories:

Canada Place  
9700 Jasper Avenue  
Suite 540  
Edmonton, AB T5J 4C3  
Tel.: (403) 495-2944  
Fax: (403) 495-4507

510-5th Street S.W.  
Eleventh Floor  
Calgary, AB T5P 3S2  
Tel.: (403) 292-6660  
Fax: (403) 292-4578

##### Saskatchewan:

119-4th Avenue South  
Suite 401  
Saskatoon, SK S7K 5X2  
Tel.: (306) 975-5315  
Fax: (306) 975-5334

1919 Saskatchewan Drive  
Sixth Floor  
Regina, SK S4P 3V7  
Tel.: (306) 780-6325  
Fax: (306) 780-6679

**Manitoba:** 330 Portage Avenue  
Seventh Floor  
P.O. Box 981  
Winnipeg, MB R3C 2V2  
Tel.: (204) 983-8036  
Fax: (204) 983-2187

**Ontario:** Dominion Public Building  
1 Front Street West  
Fourth Floor  
Toronto, ON M5J 1A4  
Tel.: (416) 973-5053  
Fax: (416) 973-8161

**Quebec:** Stock Exchange Tower  
800 Victoria Square  
Suite 3800  
P.O. Box 247  
Montreal, PQ H4Z 1E8  
Tel.: (514) 283-8185  
Fax: (514) 283-8794

**New Brunswick:** Assumption Place  
770 Main Street  
P.O. Box 1210  
Moncton, NB E1C 8P9  
Tel.: (506) 851-6452  
Fax: (506) 851-6429

**Prince Edward Island:** Confederation Court Mall  
134 Kent Street  
Suite 400  
P.O. Box 1115  
Charlottetown, PE C1A 7M8  
Tel.: (902) 566-7400  
Fax: (902) 566-7450

**Nova Scotia:** Central Guaranty Trust Tower  
1801 Hollis Street  
Fifth Floor  
P.O. Box 940, Stn M  
Halifax, NS B3J 2V9  
Tel.: (902) 426-7540  
Fax: (902) 426-2624

**Newfoundland:** Atlantic Place  
215 Water Street  
Suite 504  
P.O. Box 8950  
St. John's, NF A1B 3R9  
Tel.: (709) 772-5511  
Fax: (709) 772-5093/2373

## WORLD INFORMATION NETWORK FOR EXPORTS (WIN EXPORTS)

The World Information Network for Exports (WIN Exports) is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides Canadian government officials with information on the capabilities, experience and interests of more than 30,000 Canadian exporters. To register on WIN Exports, call: (613) 996-5701.

## PROGRAM FOR EXPORT MARKET DEVELOPMENT (PEMD)

This program seeks to increase export sales by sharing the costs of industry-initiated activities aimed at developing export markets. PEMD is administered by DI regional offices and funded by DFAIT. Activities eligible for PEMD financial support (up to 50 percent of the costs) include:

- participation in recognized foreign trade fairs outside of Canada;
- trips to identify export markets and visits by foreign buyers to Canada;
- project bidding or proposal preparation at the pre-contractual stage for projects outside Canada;
- the establishment of permanent sales offices abroad in order to undertake sustained marketing efforts;
- special activities; for example, for non-profit, non-sales food, agriculture and fish organizations, marketing boards and agencies, trade fairs, technical trials, and product demonstrations; and
- new eligible costs include: product testing for market certification, legal fees for marketing agreements abroad, transportation costs for offshore company trainees, product demonstration costs and other costs necessary to execute the marketing plan.

Support is also provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business and government officials who can influence export sales.

For general information, call the InfoCentre at 1-800-267-8376. For applications for assistance, call the International Trade Office nearest you.

## INTERNATIONAL FINANCING

DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFIs). Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine if an IFI-funded market opportunity is practical and worth pursuing. DFAIT can provide information and advice on the availability of Canadian government-funded assistance programs and can assist companies in developing effective export marketing. For further information contact:

International Finance Division  
Department of Foreign Affairs and International Trade  
(DFAIT)  
Tel.: (613) 995-7251  
Fax: (613) 943-1100

## TECHNOLOGY INFLOW PROGRAM

Managed by DFAIT and delivered domestically by the National Research Council (NRC), this program is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. DI also helps in program promotion. The program officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The program will also help Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies as well as to negotiate to acquire them. For information, call: (613) 993-3996.

## INVESTMENT DEVELOPMENT PROGRAM

This program helps Canadian companies find the investment they need. It actively promotes investments that take the form of new plant and equipment, joint ventures or strategic partnerships. It is especially interested in attracting investment that introduces new technology into Canada, a key to creating new jobs and economic opportunities. Investment officers make contact with foreign investors and bring them together with Canadian companies. For information, call: (613) 995-8400.

## DEPARTMENT OF INDUSTRY (DI)

Department of Industry (DI) was created with a broad mandate to improve the competitiveness of Canadian industry. In the area of small business, it has been given specific responsibility to:

- develop, implement and promote national policies to foster the international competitiveness of industry; the enhancement of industrial, scientific and technological development, and the improvement in the productivity and efficiency of industry;

- promote the mobility of goods, services, and factors of production within Canada;
- develop and implement national policies to foster entrepreneurship and the start-up, growth and expansion of small businesses;
- develop and implement national policies and programs respecting industrial benefits from procurement of goods and services by the government of Canada; and
- promote and provide support services for the marketing of Canadian goods, services and technology.

**Business Service Centre**  
Department of Industry  
235 Queen Street  
First Floor, East Tower  
Ottawa, ON K1A 0H5  
Tel.: (613) 952-4782  
Fax: (613) 957-7942

**NAFTA Information Desk**  
Department of Industry  
235 Queen Street  
Fifth Floor, East Tower  
Ottawa, ON K1A 0H5  
Fax: (613) 952-0540

## DI REGIONAL OFFICES

The regional offices work directly with Canadian companies to promote industrial, scientific and technological development. They help clients recognize opportunities in a competitive international marketplace by providing services in the areas of business intelligence and information, technology and industrial development, as well as trade and market development. They also promote and manage a portfolio of programs and services.

The following are areas in which DI regional offices have special competence:

- access to trade and technology intelligence and expertise;
- entry points to national and international networks;
- industry sector knowledge base;
- co-location with International Trade Centres connected to DFAIT and Canadian posts abroad;
- client focus on emerging and threshold firms; and
- DI Business Intelligence.

## THE BUSINESS OPPORTUNITIES SOURCING SYSTEM (BOSS)

BOSS is a computerized databank that profiles over 26,000 Canadian companies. It lists basic information on products, services and operations that is useful to potential customers. The system was established in 1980 by DI in cooperation with participating provincial governments. BOSS was originally established so that trade commissioners, posted around the world by DFAIT, could find Canadian companies that might be able to take advantage of foreign market opportunities. Today, more than 11,000 domestic and international subscribers use the system to locate Canadian suppliers. The majority of subscribers are Canadian companies. For information, call: (613) 954-5031.

## MARKET INTELLIGENCE SERVICE

This service provides Canadian business with detailed market information on a product specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer, and new manufacturing investment opportunities. The intelligence is used by Canadian business in decisions regarding manufacturing, product development, marketing, and market expansion. The information includes values, volume and unit price of imports, characteristics of specific imports (e.g. material, grade, price range, etc.), names of importers, major countries of export, identification of foreign exporters to Canada, Canadian production, Canadian exports, and U.S. imports. Two-thirds of the clientele for this service are small businesses. For information, call: (613) 954-4970.

## REVENUE CANADA

Revenue Canada Customs provides a NAFTA Help Desk telephone line with service available in Spanish.

**NAFTA Spanish Help Desk**  
Tel.: (613) 941-0965

**NAFTA Information Desk**  
Revenue Canada — Customs, Excise and Taxation  
191 Laurier Avenue West  
Sixth Floor  
Ottawa, ON K1A 0L5  
Tel.: 1-800-661-6121  
Fax: (613) 954-4494

## CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)

An important possible source of financing for Canadian ventures in Mexico is the special fund available through the Canadian International Development Agency (CIDA) under the Industrial Cooperation Program, or CIDA/INC. This program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. INC supports the development of linkages with the private sector in Mexico by encouraging Canadian enterprises to share their skills and experiences with partners in Mexico and other countries. A series of INC mechanisms help enterprises to establish mutually beneficial collaborative arrangements for the transfer of technology and the creation of employment in Mexico.

There are five INC mechanisms which help eligible Canadian firms to conduct studies and provide professional guidance and advice to potential clients. Where a project involves environmental improvement, technology transfer, developmental assistance to women, job training, or job creation, early contact with CIDA's Industrial Cooperation Division is suggested. An important CIDA criterion is that the project creates jobs in Mexico without threatening jobs in Canada. In fact, most CIDA-assisted projects have produced net increases in Canadian jobs.

**Industrial Cooperation Division**  
Canadian International Development Agency  
200, Promenade du Portage  
Hull, PQ K1A 0G4  
Tel.: (819) 997-7905/7906  
Fax: (819) 953-5024

## ATLANTIC CANADA OPPORTUNITIES AGENCY (ACOA)

Atlantic Canadian companies seeking to develop exports to Mexico may be eligible for assistance from the Atlantic Canada Opportunities Agency (ACOA). The Agency works in partnership with entrepreneurs from the Atlantic region to promote self-sustaining economic activity in Atlantic Canada.

The ACOA Action Program provides support to businesses as they look to expand existing markets through the development of marketing plans. Efforts include monitoring trade opportunities arising from global economic change; communications efforts to promote the region; trade missions and associated activities; as well as better coordination with federal and provincial bodies that influence trade and investment opportunities.

Atlantic Canada Opportunities Agency Head Office  
Blue Cross Centre  
644 Main Street  
P.O. Box 6051  
Moncton, NB E1C 9J8  
Tel: 1-800-561-7862  
Fax: (506) 851-7403

## WESTERN ECONOMIC DIVERSIFICATION CANADA (WD)

Western Canadian companies interested in Mexico may be able to secure assistance from Western Economic Diversification Canada (WD). This agency provides financial assistance for projects which contribute to the diversification of the western economy. It acts as a pathfinder to ensure that western businesses are aware of and receive assistance from the most appropriate source of funding (federal or other), for their projects. It acts as an advocate for the west in national economic decision-making and it coordinates federal activities that have an impact on economic growth in the west. It plays a role in promoting trade between western Canada and markets around the world. Inquiries about the Western Diversification Program and other activities of the department can be directed to the regional head office:

Western Economic Diversification Head Office  
The Cargill Building  
240 Graham Avenue  
Suite 712  
P.O. Box 777  
Winnipeg, MB R3C 2L4  
Tel.: (204) 983-4472  
Fax: (204) 983-4694

## EXPORT DEVELOPMENT CORPORATION (EDC)

EDC is a unique financial institution that helps Canadian business compete internationally. EDC facilitates export trade and foreign investment by providing risk management services, including insurance and financing, to Canadian companies and their global customers.

EDC's programs fall into four major categories:

- export credit insurance, covering short- and medium-sized credits;
- performance-related guarantees and insurance, providing coverage for exporters and financial institutions against calls on various performance bonds and obligations normally issued either by banks or surety companies;
- foreign investment insurance, providing political risk protection for new Canadian investments abroad; and
- export financing, providing medium- and long-term export financing to foreign buyers of Canadian goods and services.

For information on the full range of EDC services, contact any of the following EDC offices:

**Ottawa (Head Office):** 151 O'Connor Street  
Ottawa, ON K1A 1K3  
Tel.: (613) 598-2500  
Fax: (613) 237-2690

**Vancouver:** One Bentall Centre  
505 Burrard Street  
Suite 1030  
Vancouver, BC V7X 1M5  
Tel.: (604) 666-6234  
Fax: (604) 666-7550

**Calgary:** 510-5th Street S.W.  
Suite 1030  
Calgary, AB T2P 3S2  
Tel.: (403) 292-6898  
Fax: (403) 292-6902

**Winnipeg:  
(serving Manitoba  
and Saskatchewan)** 330 Portage Avenue  
Eighth Floor  
Winnipeg, MB R3C 0C4  
Tel.: (204) 983-5114  
Fax: (204) 983-2187

**Toronto:** National Bank Building  
150 York Street  
Suite 810  
P.O. Box 810  
Toronto, ON M5H 3S5  
Tel.: (416) 973-6211  
Fax: (416) 862-1267

**London:** Talbot Centre  
148 Fullarton Street  
Suite 1512  
London, ON N6A 5P3  
Tel.: (519) 645-5828  
Fax: (519) 645-5580

**Montreal:** Tour de la Bourse  
800 Victoria Square  
Suite 4520  
P.O. Box 124  
Montreal, PQ H4Z 1C3  
Tel.: (514) 283-3013  
Fax: (514) 878-9891

**Halifax:** Purdy's Wharf, Tower 2  
1969 Upper Water Street  
Suite 1410  
Halifax, NS B3J 3R7  
Tel.: (902) 429-0426  
Fax: (902) 423-0881

## **NATIONAL RESEARCH COUNCIL (NRC)**

Canadian companies, hoping to succeed in the Mexican marketplace may require additional technology to improve their competitiveness. The National Research Council (NRC) works with Canadian firms of all sizes to develop and apply technology for economic benefit. The Council supervises the Industrial Research Assistance Program (IRAP), a national network for the diffusion and transfer of technology.

The IRAP network supports the process of developing, accessing, acquiring, implanting, and using technology throughout Canadian industry. IRAP has been in existence for 40 years and has acquired a reputation as one of the more flexible and effective federal programs. IRAP takes advantage of an extensive network that includes more than 120 regional and local offices, 20 provincial technology centres, the Council's own laboratories and research institutes, federal government departments, and technology transfer offices in Canadian universities. The IRAP network also extends abroad through the technology counsellors attached to Canadian posts in some 18 foreign countries. For more information or the name of the IRAP officer nearest you, contact the following:

### **IRAP Office**

National Research Council  
Montreal Road  
Building M-55  
Ottawa, ON K1A 0R6  
Tel.: (613) 993-5326  
Fax: (613) 954-2524

## **MEXICAN GOVERNMENT OFFICES IN CANADA**

The Embassy of Mexico, Mexican Trade Commissioners in Canada, and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico.

### **Embassy of Mexico**

45 O'Connor Street  
Suite 1500  
Ottawa, ON K1P 1A4  
Tel.: (613) 233-8988  
Fax: (613) 235-9123

### **Mexican Consulate in Ottawa**

Tel.: (613) 233-6665

## **OTHER MEXICAN CONSULATES GENERAL IN CANADA**

### **Consulate General of Mexico**

2000 Mansfield Street  
Suite 1015  
Montreal, PQ H3A 2Z7  
Tel.: (514) 288-2502/4916  
Fax: (514) 288-8287

### **Consulate General of Mexico**

199 Bay Street  
Suite 4440  
P.O. Box 266, Station Commerce Court West  
Toronto, ON M5L 1E9  
Tel.: (416) 368-2875/8141/1847  
Fax: (416) 368-8342

### **Consulate General of Mexico**

810-1139 West Pender Street  
Vancouver, BC V6E 4A4  
Tel.: (604) 684-3547/1859  
Fax: (604) 684-2485

### **Mexican Honorary Consulate**

380, Chemin St. Louis  
Suite 1407  
Québec, PQ G1S 4M1  
Tel.: (418) 681-3192  
Fax: (418) 683-7843

### **Mexican Honorary Consulate**

830-540 5th Avenue, S.W.  
Calgary, AB T2P 0M2  
Tel.: (403) 263-7077/7078  
Fax: (403) 263-7075

### **Mexican Honorary Consulate**

1900 Commodity Exchange Tower  
360 Main Street  
Winnipeg, MB R3C 3Z3  
Tel.: (202) 944-2540  
Fax: (202) 957-1790

## **MEXICAN FOREIGN TRADE COMMISSIONS**

*Banco Nacional de Comercio Exterior (Bancomext)* is the Mexican Trade Commission and has offices in Canada. It offers credits, export guarantees and counselling services for those seeking to do business in Canada. *Bancomext* also sponsors trade fairs, international exhibitions and trade missions.



## MEXICAN BANKS WITH OFFICES IN CANADA

*Banco Nacional de México (Banamex), Banco de Comercio (Bancomer), and Banca Serfin* are private sector banks which offer specialized services through their international trade information centres. The centres participate in a computerized communications network with access to numerous economic, governmental and financial data bases throughout the world. These banks are located throughout Mexico and maintain offices in Toronto.

*Banco Nacional de México (Banamex)*  
1 First Canadian Place  
Suite 3430  
P.O. Box 299  
Toronto, ON M5X 1C9  
Tel.: (416) 368-1399  
Fax: (416) 367-2543

*Banco de Comercio (Bancomer)*  
The Royal Bank Plaza  
South Tower  
Suite 2915  
P.O. Box 96  
Toronto, ON M5J 2J2  
Tel.: (416) 956-4911  
Fax: (416) 956-4914

*Banca Serfin*  
BCE Place  
Canada Trust Tower  
161 Bay Street  
Suite 4360  
P.O. Box 606  
Toronto, ON M5J 2S1  
Tel.: (416) 360-8900  
Fax: (416) 360-1760

## KEY CONTACTS IN CANADA

### SPONSORING ORGANIZATIONS

#### BAKER & MCKENZIE

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### BUSINESS AND PROFESSIONAL ASSOCIATIONS

The Canadian Council for the Americas (CCA) is a non-profit organization formed in 1987 to promote business interests in Latin American as well as Caribbean countries. The CCA promotes events and programs targeted at expanding business and building networking contacts between Canada and the countries of the region. It also publishes a bimonthly newsletter.

**The Canadian Council for the Americas (CCA)**  
Executive Offices  
145 Richmond Street West  
Third Floor  
Toronto, ON M5H 2L2  
Tel.: (416) 367-4313  
Fax: (416) 367-5460

**Canadian Exporters' Association (CEA)**  
99 Bank Street  
Suite 250  
Ottawa, ON K1P 6B9  
Tel.: (613) 238-8888  
Fax: (613) 563-9218

**Canadian Manufacturers' Association (CMA)**  
75 International Boulevard  
Fourth Floor  
Etobicoke, ON M9W 6L9  
Tel.: (416) 798-8000  
Fax: (416) 798-8050

**The Canadian Chamber of Commerce (CCC)**  
55 Metcalfe Street  
Suite 1160  
Ottawa, ON K1P 6N4  
Tel.: (613) 238-4000  
Fax: (613) 238-7643

**Forum for International Trade Training Inc. (FITT Inc.)**  
155 Queen Street  
Suite 608  
Ottawa, ON K1P 6L1  
Tel.: (613) 230-3553  
Fax: (613) 230-6808

**Language Information Centre**  
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Box 55011  
Ottawa, ON K1P 1A1  
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**Open Bidding Service (OBS)**  
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**Canadian Construction Association (CCA)**  
85 Albert Street  
Ottawa, ON K1P 6A4  
Tel: (613) 236-9455  
Fax: (613) 239-9526

**Association of Consulting Engineers of Canada (ACEC)**  
130 Albert Street  
Suite 616  
Ottawa, ON K1P 5G4  
Tel.: (613) 236-0569  
Fax: (613) 236-6193

**Royal Architectural Institute of Canada (RAIC)**  
55 Murray Street  
Suite 330  
Ottawa, ON K1N 5M3  
Tel: (613) 232-7165  
Fax: (613) 232-7559

**Canadian Standards Association (CSA)**  
178 Rexdale Blvd.  
Rexdale, ON M9W 1R3  
Tel: (416) 747-4000  
Fax: (416) 747-4149

**Standards Council of Canada**  
45 O'Connor Street  
Suite 1200  
Ottawa, ON K1P 6N7  
Tel.: (613) 238-3222  
Fax: (613) 995-4564

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### COMMERCIAL DIVISION

#### THE EMBASSY OF CANADA IN MEXICO

The Commercial Division of the Canadian Embassy in Mexico can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well-informed about the market and will respond in whatever measures possible to support a Canadian firm's presence in Mexico.

*Note: to telephone Mexico City, dial: 011-52-5 before the number shown. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes.*

Commercial Division  
The Embassy of Canada in Mexico  
Schiller No. 529  
Apartado Postal 105-05  
Col. Polanco  
11560 México, D.F.  
México  
Tel.: 724-7900  
Fax: 724-7982

Canadian Business Centre  
*Centro Canadiense de Negocios*  
Av. Ejército Nacional No. 926  
Col. Polanco  
11540 México, D.F.  
México  
Tel.: 580-1176  
Fax: 580-4494

Canadian Consulate  
Edificio Kalos, Piso C-1  
Local 108A  
Zaragoza y Constitución  
64000 Monterrey, Nuevo León  
México  
Tel.: 344-3200  
Fax: 344-3048

## KEY CONTACTS IN MEXICO

### MEXICAN GOVERNMENT AGENCIES

**Federal Electricity Commission**  
*Comisión Federal de Electricidad (CFE)*  
Río Ródano No. 14  
Col. Cuauhtémoc  
06598 México, D.F.  
México  
Tel.: 207-3962/3704, 553-7133  
Fax: 553-6424

**Secretariat of Foreign Affairs**  
*Secretaría de Relaciones Exteriores (SRE)*  
Ricardo Flores Magón No. 1, Piso 19  
Col. Guerrero  
06995 México, D.F.  
México  
Tel.: 782-3660/3765  
Fax: 782-3511

**National Oil Company**  
*Petróleos Mexicanos (PEMEX)*  
Av. Marina Nacional No. 329  
Col. Huasteca  
11311 México, D.F.  
México  
Tel.: 250-2611  
Fax: 625-4385

**Houston Purchasing Offices**  
3600 South Gessner  
Suite 100  
Houston, TX 77065  
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Tel.: (713) 978-6269  
Fax: (713) 978-6298

**National Telephone Company**  
*Teléfonos de México (TELMEX)*  
Parque Vía No. 190  
Col. Cuauhtémoc  
06599 México, D.F.  
México  
Tel.: 222-9650, 535-2041  
Fax: 203-5104

**Secretariat of Communications and Transportation**  
*Secretaría de Comunicaciones y Transportes (SCT)*  
Subsecretaría de Comunicación y Desarrollo Tecnológico  
Av. Universidad y Xola, Cuerpo C, Piso 1  
Col. Narvarte  
03020 México, D.F.  
México  
Tel.: 519-5201  
Fax: 559-8708

**National Telecommunications Company**  
*Telecomunicaciones de México (TELECOM)*  
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Piso 11, Ala Norte  
Col. Narvarte  
03020 México, D.F.  
México  
Tel.: 519-4049, 530-3492  
Fax: 559-9812

**Instituto Mexicano de Comunicaciones**  
*Conjunto de Telecomunicaciones (CONTEL)*  
Av. de las Telecomunicaciones s/n  
Col. Guadalupe del Moral  
09300 México, D.F.  
México  
Tel.: 613-5264, 613-0165  
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**Secretariat of Commerce and Industrial Development**  
*Secretaría de Comercio y Fomento Industrial (SECOFI)*  
Subsecretaría de Comercio Exterior  
Alfonso Reyes No. 30  
Col. Hipódromo Condesa  
06170 México, D.F.  
México  
Tel.: 729-9256/9257  
Fax: 729-9343

**Central Light and Power Company**  
*Luz y Fuerza del Centro (LyF)*  
Av. Melchor Ocampo No. 171  
Col. Tlaxpana  
11379 México, D.F.  
México  
Tel.: 592-0655  
Fax: 546-8409

**National Water Commission —  
Office of Construction Management**  
*Comisión Nacional del Agua — Gerencia de Construcciones*  
Cda. J. Sánchez Azcona No. 1723  
Col. del Valle  
03100 México, D.F.  
México  
Tel.: 524-6985, 534-4650  
Fax: 524-1129

**Mexican National Railway**  
*Ferrocarriles Nacionales de México (FNM)*  
Jesús García No. 140, Piso 13 Ala A  
Col. Buenavista  
06358 México, D.F.  
México  
Tel.: 541-4004, 547-9317  
Fax: 547-0959

**Mexican Airport Authority**  
*Aeropuertos y Servicios Auxiliares (ASA)*  
Avenida 602 No. 161  
Col. San Juan de Aragón  
15620 México, D.F.  
México  
Tel.: 571-4545/4911  
Fax: 762-5951

**Mexican Port Authority**  
*Puertos Mexicanos*  
Municipio Libre 377, Piso 6, Ala A  
Col. Santa Cruz Atoyac  
03310 México, D.F.  
México  
Tel.: 604-7875, 688-2266  
Fax: 688-9081

**Secretariat of Social Development**  
*Secretaría de Desarrollo Social (SEDESOL)*  
Av. Constituyentes No. 947  
Col. Belén de las Flores  
01110 México, D.F.  
México  
Tel.: 271-8481  
Fax: 271-8862

**Department of the Federal District**  
*Departamento del Distrito Federal (DDF)*  
*Dirección General de Construcción y  
Operación Hidráulica*  
Plaza de la Constitución y Pino Suárez No. 1, Piso 4  
Col. Centro  
06068 México, D.F.  
México  
Tel.: 510-0349, 512-9637  
Fax: 512-9637

**Federal Roads and Bridges Commission**  
*Caminos y Puentes Federales de Ingresos y Servicios Conexos  
(CAPFISC)*  
Av. Plan de Ayala No. 629  
Col. Lomas del Mirador  
62350 Cuernavaca, Morelos  
México  
Tel.: 11-5400  
Fax: 11-5347

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Industry**  
*Cámara Nacional de la Industria de Radio y Televisión*  
Horacio No. 1013  
Col. Chapultepec Polanco  
11560 México, D.F.  
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Tel.: 726-9909, 254-1833  
Fax: 545-6767

**National Chamber of the Cable Television Industry**  
*Cámara Nacional de la Industria de Televisión por Cable*  
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México  
Tel.: 682-0173/0298  
Fax: 682-0881

**National Chamber of Commerce of Mexico City**  
*Cámara Nacional de Comercio de la Ciudad de México  
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Paseo de la Reforma No. 42  
Col. Centro  
06030 México, D.F.  
México  
Tel.: 592-2677/2665  
Fax: 592-3571

**National Chamber of the Construction Industry**  
*Cámara Nacional de la Industria de la Construcción*  
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Col. Parques del Pedregal  
14010 México, D.F.  
México  
Tel.: 665-0424/1500  
Fax: 606-6720

**Promotion Centre for Construction and Housing***Centro Impulsor de la Construcción y la Habitación A.C.**(CIHAC)*

Av. Minerva No. 16  
Col. Crédito Constructor  
03940 México, D.F.  
México  
Tel.: 661-0844, 662-5085  
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**National Association of the Manufacturing Industry***Cámara Nacional de la Industria de la Transformación**(CANACINTRA)*

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México  
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Fax: 598-5888

**Canadian Chamber of Commerce in Mexico***Cámara de Comercio de Canadá en México*

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Col. Juárez  
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México  
Tel.: 525-0961/0541  
Fax: 525-0438

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México  
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Fax: 559-4914

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Paseo de la Reforma No. 915

Col. Lomas de Chapultepec

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México  
Tel.: 202-7804  
Fax: 202-7925

**School of Architects***Colegio de Arquitectos*

Av. Constituyentes No. 800

Col. Lomas Altas

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México  
Tel.: 570-0007  
Fax: 259-5423

**MEXICAN COMPANIES***Ingenieros Civiles Asociados, S.A. de C.V. (ICA)*

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México  
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Fax: 272-9991 ext. 3868

*Triturados Basálticos y Derivados, S.A. de C.V. (TRIBASA)*

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*Grupo Protexa, S.A. de C.V.*

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66350 Santa Catarina, Nuevo León  
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Fax: 336-2964

Houston Purchasing Office — IMXPORT

Tel.: (713) 820-3300

*Obras y Proyectos S.A. de C.V.**Grupo Mexicano de Desarrollo*

Baja California No. 255 A, Piso 12

Col. Hipódromo Condesa

Tel.: 564-9403

Fax: 264-3812

*Grupo Alfa*

Av. Gómez Morín No. 1111

Col. Carrizalejo

66254 Garza García, Nuevo León

México

Tel.: 335-3535

Fax: 335-8135

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México  
Tel.: 203-8211  
Fax: 203-8542

**Royal Bank of Canada**  
Hamburgo No. 172, Piso 5  
Col. Juárez  
06600 México, D.F.  
México  
Tel.: 207-2400  
Fax: 208-1592

**Toronto Dominion Bank**  
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06500 México, D.F.  
México  
Tel.: 905-431-4355 (temporarily)  
Fax: 520-0127

**Bank of Nova Scotia**  
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Col. Juárez  
06600 México, D.F.  
México  
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Fax: 208-7182

**Canadian Imperial Bank of Commerce**  
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México  
Tel.: 281-1238/1074  
Fax: 280-3069

**National Bank**  
(representative office)  
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Name: \_\_\_\_\_

Company: \_\_\_\_\_

Address: \_\_\_\_\_

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**Please return the completed survey by fax to (613) 943-8806 or to the address below:**

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