



Access

• September 1994 •

FASHION ON THE CUTTING EDGE

One of the surprise "hits" of Canada Expo 94 in Mexico City was the Canadian fashion industry, which brought a touch of glamour to an otherwise practical affair.

The fashion area, featuring clothing, accessories, jewellery and perfume, offered a contrast to the more functional machinery, technology and agricultural displays that were the main course offered in the Exhibimex.

There was always a great deal of interest and activity in the fashion products area — women twirled in the aisles, trying on fur coats or jackets, while spritzes of perfume were liberally applied to passers-by (male or female). Re-arrangement of samples at the jewellery counter would produce an aisle-blocking crowd, and the whole area exuded colour, scents and the atmosphere created by goods that are, at the very least, discretionary buys.

Quite a few orders were placed for clothing, perfumes and jewellery by some of Mexico's high-end fashion chain stores, and a lot of interest was engendered in future transactions between Canada's style practitioners and a growing new market.

"Fashion is a specialty, niche market," admits Carol Outram of the Canadian Apparel Federation's Design Division. "It finds its level fast, and then plateaus. We at the CAF consider it part of our

role to look at the market and to create networking and promotional opportunities."

Design-driven companies do not have enormous volume in any given market. "We have made an effort to find ways for the designers to expand. In recent times, we have identified two strong potential new market areas for Canadian designers: the United Kingdom and Mexico."

When it comes to Mexico, Ms. Outram says, the CAF decided to "take advantage of a new market." Aware of NAFTA, and all the trade initiatives related to it, the CAF invited the Mexico edition of *Vogue*, the bible of international fashion coverage, to attend the September showing of the Toronto Collections, as the twice-yearly ready-to-wear shows are known. The immediate result was an unprecedented four-page full-colour spread in *Mexico Vogue*, and a new interest in the notion of fashion from Canada.

"With that response, which came in the February issue of *Vogue*, we knew there would be a lot of active interest from the Mexican buying market," Ms. Outram says. "That kind

of space means that the editors have identified interest from their subscribers — their audience — and feel they can keep the advertisers happy."

As a result, she intensified efforts to make the presence of the Canadian design and fashion sector a part of Canada Expo, and it paid off. "Designers have to look at how they can maintain and expand their business, make sure their decisions are the right decisions."

They made an attractive and appealing presence. Several companies, including Franco Mirabelli of Montreal, a fashion designer, Coro Canada of Toronto, a cosmetic jewellery firm, and Parfums Simon Chang, made sales on-site. Many of the other exhibitors received orders and most received expressions of interest.

Other members of the design trade are also investigating the Mexican market: Toronto tie manufacturers Oscar and Eduardo Lulka, who are originally from Mexico, have returned home to expand their own market.

Although they operate a small manufacturing plant in Mexico, the Lulka brothers continue to produce the bulk of their high-end silk ties in Canada. They reckon that wages are only about 20 per cent of the cost of an apparel product, and that the lower operating costs in Mexico

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GET PAID?"**

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Getting to know SECOFI

Canadians interested in the Mexican market should get to know SECOFI (Secretaria de Comercio y Fomento Industrial) — the Secretariat of Trade, Commerce and Industrial Development.

Yvonne Stinson, Minister for NAFTA and Trade Affairs at the Representative Office to Canada of SECOFI, spends much of her time travelling across Canada speaking to business groups, describing what her office can offer and inviting exporters to make use of it.

As Minister Counsellor in Ottawa, she leads the team that assists Mexican companies interested in entering or growing in the Canadian market. However, SECOFI is equally interested in attracting Canadians to Mexico and in smoothing the way for them wherever possible.

"What we do here is try to build a bridge between Canada and Mexico," says Ms. Stinson.

SECOFI works with a number of bodies to coordinate Mexico's trade promotion. SECOFI itself presents government policy and perspectives.

Bancomext, Mexico's export development bank, serves a similar, though not precisely parallel, function to Canada's Export Development Corporation. "Bancomext is responsible for trade promotion. As a bank, they are the ones who can lead on that." Bancomext has offices in Montreal, Toronto and Vancouver. "They are the ones who organize trade shows in Canada, fairs, missions and the like."

Another major player is the Mexican Investment Board, whose

role is to encourage and advise Canadians interested in Mexico.

Ms. Stinson and SECOFI work in tandem with Compex, the Export Promotion Commission. This is a forum in which the operators of Mexico's foreign trade meet regularly with senior government officials both to solve specific problems related to Mexican exports and to promote export projects. Compex is incorporated in Mexico's foreign trade law with powers including the coordination between private and public sectors on issues relating to the export of goods and services.

Internationally, Compex deals with issues of broad interest to exporters, such as access barriers, tariffs, transport costs and services, standards. Three commissions are installed in Canada, in Montreal, Toronto and Vancouver. They operate from time to time in open forum as a means of liaising with Canadian exporters and bringing information to them in response to timely questions on trading with Mexico.

Minister Stinson also provides advice to Canadian companies on policy issues, and the whole process of Mexico's evolving trade policy strategies. "The business community wants to hear about the legal framework in Mexico, in new trade laws, in the system and in regulations, in anything that has changed since NAFTA. People are also interested in Mexican perceptions of Canada and Canadian business. I talk about large issues, such as energy, or about things such as dispute settlement mechanisms — interpretations of NAFTA Chapter 19."

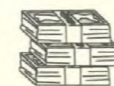
SECOFI issues some publications to the Canadian public. One, **Forging a New Relationship**, was widely circulated about a year ago, and will be updated early in 1995. More importantly, the SECOFI office receives Mexican publications from private and public sector sources. Many are in Spanish, but others, such as an excellent series from the Mexican Investment Board, have been translated.

"This office will help people to find the information they need, or will direct them to the right source," says Ms. Stinson. "We can call to Mexico for information for people."

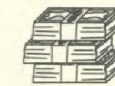
A recent publication from SECOFI, entitled **Legal Framework of Doing Business in Mexico**, can be obtained by faxing a request to the SECOFI office in Ottawa at (613) 235-1129.

Minister Stinson cautions that SECOFI is not a substitute for contracted consultants or representatives, rather a source of information. "In the first instance I would often direct someone to Bancomext," she says. "They have a very good database."

Ms. Stinson, who served as a NAFTA negotiator and then in SECOFI's office in Washington, feels she has come to Canada to "complete the circle. We have to get to know one another, to get familiar, to get things done. I have here a good opportunity to help my country. I can help people get appointments so they can do business — I will help send them on the way. My instructions from my Minister are quite clear: we are to provide solutions."



SOURCES OF EXPORT FINANCING



"AM I GOING TO GET PAID?"

It is always on an exporter's mind, especially when dealing with a new market. And particularly if it's a foreign market, where the procedures and methods of doing business are not necessarily the same as our own.

Many Canadian exporters have ventured into the Mexican market in recent years, encouraged by the potential of NAFTA. Many companies are now well established.

But others are a little wary, if only because they wonder whether their customers will pay up on time.

Companies may still have qualms, despite well-reasoned business plans, budgets that allow for research, preliminary "contact" trips, and participation in trade fairs or missions.

Financial uncertainties are legion. The importer cannot control local market conditions. What about wild fluctuations in their currency — or ours? How politically stable is the country, and how will it affect the exchange rates? What about the costs that can't be anticipated? What happens if goods go astray?

These are matters that worry exporters, particularly those in small or medium-size businesses least able to cushion themselves from the financial ups and downs of the market place.

One of the major sources of assistance to exporters is Canada's **Export Development Corpora-**

tion (EDC). The Corporation offers both insurance and financing to suit individual customer needs.

In 1992, Mexico became EDC's fourth-largest insurance market. Through its credit insurance, EDC can protect a Canadian exporter's cash flow in case of a payment default. Your bank may accept EDC credit insurance as collateral for lines of credit.

EDC can also facilitate the purchase of capital goods by providing your customers with medium or long term credit. And your customers can gain access to Canadian financing for their end of a business arrangement through one of more than a dozen lines of credit (LOCs) that EDC has established with Mexican organizations. While most of these are with banks, credit facilities are also in place with CFE, the national energy utility, PEMEX, the Mexican oil company, and TELMEX, Mexico's telephone utility.

"Mexico is a significant market for EDC's customers," said EDC in its 1992 annual report. "In fact, in 1992 EDC supported more than 50 per cent of all visible Canadian merchandise exports destined for Mexico." For 1993, sales supported by EDC's short and medium term insurance totalled C\$466 million.

However, EDC's medium and long term financing is only available for trade in capital goods. Dealing in

consumables, you should be making use of your **private banks**. Your local branch can connect you to a national system that is already interested in Mexico's financial market. Four of Canada's major banks have already established their own beachheads in Mexico.

Most Canadian banks have people who deal with letters of credit and foreign currency transactions. Banks can be helpful in advising you on how to structure your financing. Some will be able to provide letters of introduction to their own Mexican representatives, or to counterparts in Mexican financial institutions. They can also provide you with loans.

Inevitably, you will have to deal with **Mexican banks**. It is a necessary adjunct of exporting successfully. Only Mexican banks will provide you with loans to buy real estate, or to finance costs for a joint venture. Much of the business done by EDC in Mexico is carried out through Mexico's banks. If your business involves the export of Mexican goods to Canada or elsewhere, Mexico, like Canada, has programs and agencies to help, including export loans with preferential rates.

No funding source will knowingly support a venture that has previously proved unviable. But loans are available to the prepared exporter to help a company over the last hurdles to a new market.

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are offset by the problems in the telecommunications and transportation sectors. As a result, their Canadian operation remains paramount, but the brothers see the need for enlarged markets.

"Canadian exporters who don't move into Mexico right now are ignoring the fastest growing market in North America," says Eduardo Lulka. He points out that as Mexican

plants become more efficient and competitive, and when American apparel manufacturers enter the Mexican market in force, Canadians will have to fight harder for market share. Getting in now, he says, is the key.

Eduardo Lulka notes that Canada has "a fantastic image" outside its borders, and that Mexican consumers love foreign labels. Given economic disparities in Mexico, Lulka estimates that their middle-class market is approximately the same

size as Canada's — "25 or 26 million actual consumers, but with free trade the other 60 million or so will gradually gain jobs and enter the market."

"It's the time for Canadian design," says Ms. Outram. "People are interested in this country: the ecology, aboriginal issues, our research and technology. They are interested in things that are prepared in Canada, and we mean to make the most of it."



Canadian Exporters: Profile

Placer Dome • Vancouver, British Columbia

A new gold rush is on, not in the storied mines of the Klondike but south of the Rio

Grande, in Mexico's mineral-rich ground. Thanks to a dramatic liberalization of Mexico's policies on the mining sector that pre-date the NAFTA, the field is open to explorers, mining engineers and extractors. Canadian firms are actively prospecting for promising lodes.

Placer Dome is one of Canada's pre-eminent mining companies, and one whose ventures into Latin America have been increasingly important to its business in recent years. While it is interested in copper, notably at the Zaldivar Mine in Chile, it also has a 50 per cent interest in the gold deposits of Chile's La Coipa Mine, the largest precious metals producer in South America. Placer Dome, which defines itself as "a gold company", is among some 150 companies currently active in the metal-rich hills of Mexico.

The company has been in Mexico since the mid-1970s, and in the following decade was the only private sector investor in a silver mine, the Minera Real de Angeles, which has since been sold.

More recently, under the name Can-Mex since 1991, Placer Dome has been engaged in gold exploration at the Mulatos mining property in Sonora. The exploration is at an advanced state, with the company spending \$2.5 million U.S. in the current fiscal year, after investing \$1 million U.S. last year. Placer has a 70 per cent interest in the Mulatos project, where it has identified a geological resource of a million ounces of gold.

"It is a long term project," says Hugh Leggatt, a spokesman for the company. "We are determining how

much we can mine through a feasibility study, which should be started next year — it will take about two years. It will take about two more years to build a mine. We do see it as one of the best prospects around in mining."

Placer Dome became interested because the area was "geologically very promising for precious metals," according to Mr. Leggatt. (The area of known mineralization is a small portion of the total land position of 33,000 hectares, and further drill targets are being considered.) "Also, the changes in the Mexican mining laws and in the tax structure combined to make mining in Mexico a more attractive venture than it had been previously."

In 1992, Mexico revised its mining law to open up large concessions and guaranteed 100 per cent ownership to both domestic and foreign companies of anything they were able to dig up.

Mexico "has always been a mining country," Mr. Leggatt adds. As far as gold goes, Mexico's annual production has risen to almost 400,000 ounces a year. These are not finds in the league of South Africa or Russia, but the Mexican undersecretary of mining has recently said that he anticipates growth of 20-30 per cent in the extraction of gold over the course

of the next decade.

Mr. Leggatt notes that Placer Dome set out "to minimize the risks through geological, technical and site research. But the certainty about the regulations, the laws, the investment rules that would apply, were all very important. It is necessary to know that one can receive the return on investment."

Mining activity is exploding in Mexico, with much of the principal investment, development and extraction being done by domestic companies. But there are many foreign companies in the burgeoning mining market, either alone or in ventures with Mexican or other partners.

Placer Dome sees great prospects for the company as it takes part in the current gold rush. "NAFTA helps in the sense that it regularized the investment rules and made that climate more stable," Mr. Leggatt says.

Much more interesting to companies looking at the Mexican market, including Placer Dome and others already there, are the rebound in the prices of precious metals and the momentum of worldwide economic recovery. That and the fact that this rich resource base is still relatively untapped. When "there's gold in them thar hills," it seems likely that where Placer and others have led, many will follow.

Access

Access, the newsletter of the new Access North America (ANA) program, is published monthly and only in *CanadExport*. Subscribers to *CanadExport* automatically receive *Access*. It examines opportunities for Canadian businesses, introduces some Canadians already operating in the Mexican and U.S. markets, profiles specific sectors, and notifies readers of forthcoming events related to doing business in Mexico.

Your feedback is welcomed; correspondence should be sent to *Access*, BCT, Department of Foreign Affairs and International Trade, Ottawa, Ont., K1A 0G2, or by fax, (613) 992-5791.

For further information on the program, or a copy of a brochure on Access North America, contact InfoCentre at 1-800-267-8376 (In Ottawa 944-4000).

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