Mexico

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FMC MEXICO
A natural growth in a fertile ground

Introduction

Mexico has many attractions to global suppliers of fine and speciality chemicals: a large and increasingly wealthy population, greater political stability, proximity to the US, membership of NAFTA, potentially vast resources of oil and gas and so on.

However, Mexico is also a market with its own particular challenges, not least the long shadow cast by the state-owned petrochemicals giant Pemex over the domestic industry. This factor, more than any other, has prevented the Mexican chemicals market from reaching its full potential in the past two decades while Brazil has forged ahead.

To help readers of *Speciality Chemicals Magazine* find out more about the Mexican market, Global Business Reports has compiled this Special Publication. Based on in-depth field research in Mexico, it will bring you fully up to date with what is happening in the key markets for fine and speciality chemicals there.

This report was written by Clotilde Bonetto Gandolfi, Alfonso Tejerina, Sam Joll, Hayley Windsor and Mercedes Ortelli of Global Business Reports

Contents

5 **Rethinking the future**
Where is Mexico's chemicals industry heading after the drastic changes brought in by globalisation? The implementation of NAFTA and falling competitiveness across the value chain

6 **Q&A with ANIQ**
We asked Ing. Miguel Benedetto of ANIQ about the future of the Mexican chemicals sector

8 **Agrochemicals: Large and strong but fragmented**
Mexico's agrochemicals industry is in the midst of a transformation due to the introduction, next year, of changes to the regulations governing product registration

14 **Pharmaceuticals: Powerful potential in the Mexican market**
Mexico has the largest and most developed pharmaceuticals market in Latin America, the ninth biggest in the world and one of the ten largest producers of medicines worldwide

20 **Distributors: Subcontracting efficiency**
In a country like Mexico traders make sense because they play a very important role in connecting producers with their clients

22 **Paints & coatings: Holding on tight in hard times**
The Mexican coatings industry has experienced significant upheaval over the last few years

24 **Useful contacts**

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Rethinking the future

Two decades ago, the chemicals industry accounted for nearly 6% of Mexico's GDP. Today, its leaders are seriously evaluating where it should be heading to in the medium term, after the drastic changes brought in by globalisation, the implementation of NAFTA and falling competitiveness across the value chain, due especially to the high cost of basic petrochemicals.

The economic crisis and the devaluation of the Mexican peso - from 10 pesos to the US dollar in August 2008 to 15 in March 2009, before stabilising at about 13 - have exposed the weaknesses of the current system, which is highly dependent on imports of raw materials.

Many industry leaders, not only the nostalgic ones, agree that reactivating the national petrochemicals industry is an imperative, given that Mexico has the hydrocarbon resources needed to feed it and that doing so would create thousands of jobs in the process and would attract a significant wave of private investment to the sector.

The problem is how to implement this. National regulations give Pemex, the state-owned oil and gas company, a monopoly over the production of basic petrochemicals but Pemex does not have the infrastructure needed to produce them at competitive prices. As a result, products like urea or ammonia end up being imported from countries such as Chile or Russia.

"About 15 years ago the Brazilian petrochemical industry was a third the size of the Mexican industry. Now it is twice the size", explains Pedro Fernández, vice-president of DuPont for the American continent. "There are big gaps in the supply chain and the only company that can fill them is Pemex. Unfortunately, they are not getting the funds neccessary to do so".

The truth is, whenever Pemex can offer the raw materials to the industry, economic development follows, with private capital pouring in. A multinational like Clariant, for instance, has invested right at the door of one of Pemex' complexes, as its managing director, Fernando Hernández, explains.

"We have one of the world's most modern ethoxylation plant in Coatzacoalcos, near Veracruz, just two kilometres from the supply of ethylene oxide, the main raw material. This has improved Clariant's efficiency and safety standards because we do not need to move the raw materials for long distances," he says.

Hernández believes that, with this plant, Mexico has become one of the strongest manufacturing countries for Clariant in ethylene oxide derivatives. Needless to say, it would be very positive for the Mexican industry to replicate this model across the chemical spectrum, but the regulatory framework is quite strict when it comes to private investment in this area.

In 2005, for example, the Fénix project envisaged a $2 billion investment to expand petrochemical sites

Baz - Pemex is open to collaboration

in partnership with private investors. Pemex had to cancel the initiative because the Ministry of Finance refused to provide raw materials at preferential prices to the partners in the project.

In fact, private investment in the area is very rare. Raúl Baz, president and CEO of Grupo Petroquímico Beta, declares that the company, created in 2005, is "probably the only start-up of a Mexican in petrochemical company in the last 15 years in the country".

Beta has a pentane ethoxylation facility and is opening a plant at the end of the year for the production of hydroxyethyl cellulose (HEC), a speciality product used as a thickener for architectural paints, cosmetics and detergents. This is expected to account for 80% of its exports in five years time.

"We focus on opportunities and in Pemex there are many. With the high cost of refining right now there is a huge opportunity for foreign companies who produce ethoxylates and are looking to expand their capacity to start refining Pemex's output in Mexico. If you are willing to make a major investment, you will find Pemex is flexible", argues Baz.

Adding value

In order to take the petrochemicals industry back to its former glory, the country not only needs a more efficient framework for cooperation between Pemex and private investors but also more hydrocarbons. Based on its reserves, Pemex is the world's 11th largest oil company, but production in its traditional 'elephant' deposit, Cantarell, is declining significantly, forcing it to look for other reservoirs, while the demand for energy in a country of over 100 million people continues to increase.

Héctor Ochoa, a manager in Pemex Exploration & Production and president of the Mexican Institute of Chemical Engineers (IMIQ), believes that Mexico needs to rethink its use of hydrocarbons. "Counting on renewable energy alternatives, such as solar or wind power, the most intelligent option would be to produce petrochemicals that will support the whole chemicals industry." he says.

Gilberto Ortiz, president of the petrochemicals sub-division of Canacintra, an industry association, believes that a country importing $18 billion in petrochemicals, as Mexico did in 2008, should have an enormous intermediates industry and that all of these petrochemicals should be produced here. The recent increases in oil prices and the devaluation of the peso make this even more urgent.

Many importers, in a context like this, would be better off having a local provider, says Azael Cisneros, president of Canacintra's chemical division: "Many companies will probably find it more economic to manufacture in Mexico than to import final products. This could be a boost for the local industry but to develop it we need capital and financing is very expensive in Mexico. It is a real challenge".

Prospects

According to Canacintra sources, Mexico had about 7,500 chemicals companies producing intermediates and 20,000 manufacturing finished products before NAFTA entered into force. Blaming NAFTA for the industry's decline, however, would be unfair.

Companies need to adapt to a changing economic and trade environment and identify new opportunities as old ones become unprofitable. And, whilst free trade agreements can harm local suppliers who suddenly face new competition from abroad, they are definitely a great opportunity for a country sitting next to the world's largest economy.

Today, Mexico is one of the most liberal countries in the world trade-wise, according to José Santamarina, executive director of export development at ProMéxico, the government's investment promotion agency. Meanwhile, Leopoldo Aristoy, general manager of Univar, a multinational distributor of chemicals, warns: "Mexicans need to be more prepared for the global economy. We live in a global world and the system will not go back to protectionism any more."

Many leaders have already woken up to this fact, and the industry is already reacting. A more flexible business climate in the area of hydrocarbons and petrochemicals would definitely help but the chemicals industry in Mexico has the potential to rebound, says Ochoa of IMIQ.

"Mexico has the raw materials to produce basic petrochemicals at the scale it did before," he points out "It has a privileged location, next to the US and with access to both the Atlantic and the Pacific and it has the skilled people to undertake big projects successfully".

The sector has suffered many setbacks in the last years, yet "the industry is still there, improving the life of the population", says Hernández of Clariant. "The chemicals industry acts as a strategic partner of the economy and it will continue to do so".

This is a moment of change and it will be interesting to see how the sector adapts to the globalised environment. Numerous investors are willing to go to Mexico and if some structural changes are implemented, the already significant Mexican chemicals industry will be able to take off again, profiting from strong internal demand and even conquering international markets. Yet, for the size of the investments required, this will not be achieved overnight.

Q&A with ANIQ

We asked **Ing. Miguel Benedetto**, director general of **ANIQ**, about the future of the Mexican chemicals sector

Q The poor performance of the petrochemicals sector is an obstacle to industry development, as raw materials are not widely available nationally. What initiatives could be taken to overcome this bottleneck?

A We are working on improving the energy sector. We believe that as long as there are raw materials available at competitive prices the industry has a very good chance of growing. Mexico has good reserves of oil, natural gas and ethane. The problem is that, as private companies, we are not allowed to invest in excavation and refining. Only Pemex makes raw materials and not necessarily in the quantities that the industry requires. ANIQ does not want to get actively involved in raw materials but we want to ensure that enough are available at a competitive price. If Pemex cannot do this, we would like the opportunity to invest to get the raw materials we need to keep growing the industry.

Q The 2008 energy reform was meant to open up the market. How effective was it?

A The original reform that was suggested allowed private investments in petrochemical and natural gas production. In the end, the reform did not allow this and was not effective. We are basically in the same situation as before.

Benedetto - Raw material availability the key

Q Do you anticipate that the market will open up and when might this happen?

A I know that the government would like to open up the industry. It understands that the country needs resources and this is one of the industries in which private enterprise could help to develop the infrastructure that is needed.

One recent example of change is approval for the building of a new refinery in Tula, which will provide much needed raw materials. Energy reform would attract the investment that the country needs. Investors know that the raw materials are available and that there is a large market in Mexico, but many people are looking for political security before investing. We know that if we achieve these reforms we will receive a lot of investment, as has happened in Brazil. However, it is difficult to say when these changes might happen.

Q In the shorter term, what measures can be put in place to help the industry and introduce necessary changes to help it to move forward?

A There is good will between ourselves and the government and a mutual desire to create a good legal framework to help the industry grow. We are evaluating how we can work with Pemex by providing them with resources. For example Rijel, a Brazilian company, has recently invested in Pemex facilities, which had never happened before. We are open to any type of new scheme that will benefit the industry.

Q In the face of increasing competition from abroad, particularly from China and India, how are you ensuring that the Mexican industry remains competitive?

A We are trying to reduce bureaucracy and increase registration speeds. We are also working with our association partners in the United States and Canada in order to have the same levels and mutual recognition of standards. In logistics, we are working to have the same systems of classification to ensure a smooth transition across international borders. We want standard, compatible legislation that meets both national and international requirements.

Q What is your aim for the future of the Mexican chemicals industry?

A Our goal in 15 years time is for the industry to have the same share of GDP as we did in the late 1980s, around 5.5%. For the next few years, we want to keep it at 2%. There is still a very good chance for the industry to grow. Only 4% of Mexico, for example, has been surveyed for natural gas and there is significant potential to discover further reserves.

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Agrochemicals: Large and stro

Like its pharmaceuticals industry, Mexico's agrochemicals industry is in the midst of a transformation due to the introduction, in 2010, of changes to the regulations governing product registration. What will not change is the attraction of Mexico to agrochemicals producers and distributors all over the world because of its strong agricultural tradition and weather conditions that allow for year-round harvesting in many areas.

The Mexican agrochemicals industry is currently dominated by multinationals, who have about 70% of a market estimated at $735 million in 2009 by UMFFAAC, an industry association of the main Mexican agrochemicals companies. The main problem for those looking for big accounts is a high level of fragmentation. Unlike Brazil or Argentina, Mexico is a country of small landowners.

Consolidation may or may not come to the Mexican agricultural sector, but certainly a handful of Mexican agrochemicals companies have managed to grow to the point where they are starting to compete with the multinationals at home, and even taking their products abroad.

Velsimex, Bravo Ingeniería Industrial and Internacional Química de Cobre (IQC) are good examples of this trend. José Escalante, president of UMFFAAC and also president and CEO of Velsimex, describes how the company has become the sixth largest player in the industry.

"On one hand, we try to give bigger margins to our distributors, which is key to ensuring their loyalty. On the other, we saw that we had to compete with the multinationals across the whole product range. This is how we compiled a very comprehensive portfolio," he says.

Escalante believes that Mexican companies could be far stronger if the authorities eased the tough requirements to register generics: "In the Mexican market, about 300 molecules have gone off-patent, yet the multinationals maintain their monopoly over many of them because there are very few registration profiles available," he contends.

As a result, it is impossible to register generic versions. "The new regulation was passed in 2004 and since then there have been two registrations for equivalences, which is nothing. As well as hindering the development of the Mexican chemical industry, the regulation is an obstacle to the farmers' competitiveness."

When asked about this issue, the multinationals, grouped in another association called AMIFAC, generally say that registration procedures must be very strict to guarantee product quality and, even more importantly, public health. The two sides use opposing arguments, both with market share in mind, but all seem to agree on one point: the industry would generally benefit from more clarity in the regulations.

Arturo Kaplún, commercial manager of Agroquímica Tridente, a medium-sized Mexican producer, regrets that the rules were published in 2005, "yet only now is the process becoming a bit clear. We have been stuck for four years, not being able to enlarge our portfolio as rapidly as we would have liked".

Meanwhile, Ernesto Trejo, managing director of Danish-based generics firm Cheminova, which both imports products manufactured elsewhere and formulates locally through toll manufacturers, says that "if the rules were clear and the registration process transparent, that would be positive for everyone".

Manuel Gurrola, general director of medium-sized Mexican formulator Anajalsa feels more confident about the future. He believes that the industry has got beyond lack of unity and communication that in the past allowed the government to pass unfeasible laws.

"As an industry sector, we have united and started working to change the regulatory framework. We presented a model in which we can register the product and meet the same requirements as in Europe," he says.

With a preliminary plan already approved by the government, Gurrola is confident that "next year we will have the regulatory framework changed, just in time for many companies to renew the registration of our products."

"The laws, as with every industry in Mexico, are very good. The problem lies in the interpretation and lack of clarity of the authorities when it comes to enforcing them", says on Luis Villa, director general of Arysta LifeScience, a Japan-based multinational that in 2007 acquired GBM, then a major supplier to the Mexican fruit and vegetable market.

Registering all the old molecules as generics to comply with the new regulation will be expensive. Mexico does not have laboratories to carry out the required toxicity studies, so these need to be done abroad, at a higher price. "This encourages the informality of small companies, which in turn results in unfair competition", says Julián Ibarlucea, managing director of Grupo Ibarquim, a Mexican SME.

That said, those who are investing time and money in updating their registrations, should see themselves in a strong position in one or two years' time. "It will be a turning point for the industry, a filter for the best players, because many companies will fail to meet these new regulations and restrictions," says Alberto Bravo, CEO of Bravo.

More value

The generics market is undoubtedly a great opportunity in the medium-term, but Mexican companies are also trying to move up the value chain in order to maintain reasonable margins in the highly competitive market. Bravo, for instance, has a group working on environmentally friendly products, an area that is expected to grow rapidly.

"A year ago, we launched a line of green products. We also introduced a formulation type called HC-free, where, instead of using saline or typical petrochemical solvents that are

Packaging area of the operating department at Grupo Ibarquim factory

ng but fragmented

normally aggressive, we employ organic-type solvents that are safe for the crops and those who handle them," says Alberto Bravo.

Similarly Tecnica Mineral, new to the market in 2007, is producing organically certified mineral-based fertilisers that offer considerable benefits. Commercial director Raúl Campos explains: "Non-metallic minerals are commonly used in the agricultural industry as carriers for pesticides but these compounds can be used alone and are very effective and cheaper than the 'high-tech' active ingredients. They have no impact on the environment."

Internacional Quimica de Cobre (IQC) an ISO 9001-certified Mexican producer focused on fungicides, is also diversifying. The company already exports its products to Europe, mainly Spain, and has a financial arm that provides small Mexican farmers with funding. Managing director Juan Manuel Ramírez expects its biotechnology research to bear fruit.

"The challenge of biotechnology is logistics: live organisms need refrigeration in order to be moved around. We are researching biotechnology products that are easy to transport", he says, adding that IQC dedicates 10-15% of its annual budget to R&D.

Amy O'Shea, general director of Mexico for FMC Corporation, however, believes that conditions within the market can hinder the introduction of new products. "It is not so easy to show the results of innovations quickly, due to the crop cycle. Thus it takes longer to persuade people. There is slower adoption in large parts of the country, not just among growers but also among distributors and at government level."

Tecnica Mineral's Campos has also found persuading customers of the benefits of their products challenging, because "growers are accustomed to using synthetic products and old brands and they want to have rapid effects against pests with higher doses every season."

Thus, with much of the market still unwilling to embrace innovation, most producers are continuing to concentrate on developing existing molecules and proven formulations and are investing little in original R&D.

Assam - Peso at good level now

Finding the raw materials

In addition to the fragmentation of the market and the resulting need for distributors, together with the issue of money collection, the Mexican agrochemical industry faces the same challenge as other chemicals industry sectors: access to raw materials.

The decline of petrochemical production and the current monopoly of state-owned Pemex has resulted in many raw materials no longer being available locally and companies having to source them from abroad.

"Mexico used to produce all the raw materials needed by the industry, but today we probably import 90% of them. There's no production of urea, ammonium sulphate or phosphoric acid, which has made the market much more expensive," explains Ibarquim's Ibarlucea. With active ingredients constituting more than 90% of the cost of agrochemical production the situation is particularly important in this industry.

The cost of importing active ingredients has increased significantly in the last year, due to the strong devaluation of the peso. Companies that only sell to the national market have suffered from this. "What we try to do, as a strategy, is to find a balance between imports and exports, to decrease the risk of currency fluctuations. Our exports account for 25-30% of our sales", says Ramírez of IQC.

For companies more involved in exports, the current exchange rate is not proving to be quite so negative. Emilio Assam, executive director of Pyosa, a large Mexican chemical firm specialising in pigments and dye production as well as agricultural contract manufacturing, feels that the situation has improved.

"The problem was that the peso was very strong for so many years," he says. "While the current exchange rate means we cannot be super-competitive, I think it is at a good level." Since stabilising, the recent currency fluctuations are no longer having such a detrimental effect on cost structures.

Asia has become a particularly important source for imports. Anajalsa's Gurrola says: "In Mexico, everything comes from China and India. China has become very aggressive during the last ten years, with quality products. Many big companies have facilities there or buy from Chinese factories."

Escalante of Velsimex, however, feels that Chinese products are not as price-competitive as they used to be. "China used to have export subsidies, power usage subsidies, an artificially low currency and very low salaries. But now the situation has changed," he says.

"We have seen in the last year that there are less products available in the international market and at higher prices," notes Mario Abedrop managing director of Química Foliar, a Mexican company focused on toll manufacturing. However, with crude oil prices down and less demand for raw materials due to decreases in manufacturing, prices have fallen to a more acceptable level in 2009.

While access to raw materials is proving problematic, it is not entirely crippling production in the country. Companies such as Agri Star, part of American agrochemicals producer Albaugh, are still managing to operate large-scale manufacturing operations, producing 6,000 tonnes/year of copper fungicide at a plant in Chihuahua for export to more than 26 countries.

Escalante believes that "there is going to be an opportunity to manufacture active ingredients again in Latin America." With significant investment costs, bureaucratic and regulatory hurdles, heavy competition from abroad and Pemex's continued monopoly, however, it remains to be seen if this happens in Mexico and not everyone is convinced that local production would significantly reduce prices.

Entering the Mexican market

Unlike other Mexican sectors served by the speciality chemicals market, agriculture has not been badly affected by the current economic situation, unless one includes currency devaluation. Indeed, globally, it is one of the few markets that is continuing to perform well.

Clearly no major agrochemicals company should ignore Mexico but what is the best way to enter the Mexican market? There are several options, from the full package of setting up a local plant to simple distribution of imported products, not forgetting the possibility of contract manufacturing.

"The Mexican agrochemicals market is mature but very attractive. This is a good country, but to grow here you need to invest and show a long-term commitment. You need a solid structure", says Trejo of Cheminova. "We always ensure that our Mexican partners are up to our standards."

Norma Rodriguez (right) **– External help needed in registration**

Other multinationals also employ contract manufacturing as an efficient way of reaching the local market with their own brands. Those who have benefitted from that strategy are the local companies that are prepared to comply with all the standards that big chemicals companies ask for.

At Química Foliar, for instance, contract manufacturing has the biggest share of sales, although the firm also sells under its own brands. "Our own products give us the biggest yield, but most of our business is for third party clients. These provide smaller margins, but large orders", Abedrop comments.

Some regional contract manufacturers have even managed to go beyond the local market. With more than 15 years experience, Assam claims, Pyosa has created a world class facility with many operational advantages including: multistep synthesis capacity in one site, a highly skilled workforce, an established health, safety and environmental programme, ISO 9000:2000 certification and in-house management and implementation of new products.

With ongoing contracts to supply many major multinationals internationally, Pyosa says that it can offer the same quality and standards of production as its European and American counterparts at significantly lower prices. Indeed, high quality international contract manufacturing could prove to be a lucrative growth area for Mexican producers.

Mexico is not only attracting the multinationals, but also small foreign

Escalante - Need to loosen generic rules

companies looking to introduce their products on the market. The problem these newcomers encounter is frequently related to the complexity of the regulations and the administrative procedures. This in turn has helped the consultancy business grow.

Agrovant, for instance, is an advisory firm specialised in registering agrochemicals, fertilisers and other products for their commercialisation in the national market. "Companies know that they need to register if they want to sell and that these investments are important; so they look for external help", explains Norma Rodríguez, international business manager.

The company also networks with external consultants in the different Mexican regions and abroad, and sources legal advice from law firms. "We basically act as a link to all the areas needed to enter the Mexican agrochemicals market, from creating a company in Mexico to the marketing and commercialisation," she adds.

With slow bureaucracy and complex legislation currently presenting a barrier to entry into the market, many smaller foreign companies, as well as local firms, would benefit from the introduction of clearer legislation and government initiatives to reduce red tape.

Market Overview

Agricultural production in Mexico is characterised by a wide range of regional diversity and farming methods and there are very many small producers. Unlike other countries in the region, there are no packages of land with thousands of hectares or significant grain production.

"In Mexico there are two main crops, corn and sugar cane, then many smaller crops, like cucumber, potatoes, tomatoes and bananas. Mexico is also very competitive in fruits, vegetables and flowers," says Cheminova's Trejo.

Another challenge for the modernisation of the industry and introduction of large scale production in Mexico is the issue of land distribution. "Land ownership is a very complicated situation, there are no clear laws and it is a very confused issue. This presents a significant problem for growth and progress," notes Diaz of Agri Star.

Many local producers are not in a position to capitalise weather conditions that make it possible to grow crops year round. Consequently, much of the market is still underdeveloped and uncommercialised.

"A lot of Mexican agriculture is still based on seasonal rains and subsistence farming. While there is a lot of innovation in the north, in the centre and south they still employ very traditional farming practices," notes FMC's O'Shea.

According to Campos, there are two types of growers in the market: the technologically advanced, who use more advanced products but constitute only 10-15% of the market, and the others, who use generic products often supplied through government initiatives. Many small producers are unwilling or unable to adopt advanced technology and the main market is in generic products and tried and tested formulations.

There have been some moves toward adopting modern techniques, however. With a greater focus on increasing their yields, producers are beginning to realise the benefits of greenhouses and polytunnels. The latest figures suggest around 10,000 hectares of land in Mexico are now cultivated under cover.

Similarly, as producers look to maximise their profits, some are beginning to realise the benefits of organic farming, particularly as a means of adding value for the export market. With avocado production for the US market booming in the north-west and coffee exports continuing to do well in the south, organic farming looks set to become a growth niche.

Selling to the market

With such a wide range of customers, understanding and responding to their varied needs is vital for any producer wishing to succeed in Mexico. In this context, effective distribution is

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key. For many smaller local producers, a long experience and good knowledge of the market offer considerable competitive advantages, allowing them to add value by offering personalised services to smaller consumers.

"We go to our clients, distributors mainly, and show them how to solve their problems in the areas and crops they work in. We are also very quick to deliver our products, we always have stock and we provide deliveries at least once a week. Our clients are small and mid-sized companies located in the countryside," explains Gurrola of Anajalsa.

Other companies looking to develop their distribution are choosing alternative routes to market. Raúl Campos, Techica Mineral says: "If we try to use existing distributors we find that our products are neglected. We are therefore trying to create new distributors or find smaller ones who can really get behind and support our products. We are creating our own, exclusive distribution network."

In an increasingly crowded marketplace offering many similar products, standing out from the crowd can be difficult. FMC for one has enjoyed considerable success by analyzing and responding to the specific needs of the Mexican market. O'Shea explains that in 2007 the firm introduced a series of changes based on local research on how the Mexican agricultural community makes decisions and what it looks for in new products.

By creating a recognisable brand image and "promoting directly to the grower level to increase the pull through desirability of our products through regional managers and technical representatives, we brought ourselves closer to the market place," she adds.

Through market segmentation, FMC now "identify which distributors are strong in which crop segments and tailor our product lines for them." With a more concentrated and focused distribution network, reduced from 160 to 80, and a better understanding of the market, the company expects to see a growth of 30% this year.

Outlook

With products yields becoming increasingly important, but a large percentage of producers still relying on traditional agricultural techniques, the introduction of GMOs to the market could prove to be extremely important for productivity. Commercial products look set to appear by 2011.

Whilst many in are welcoming their arrival, Agri Star's Pablo Diaz cautions that: "There are potential threats and the introduction must be handled carefully, supported by a programme of education."

As sustainability issues and environmental awareness increases, there is also a growing trend in the industry towards the development of more effective products with lower active ingredients. In the long term, this should benefit both formulators, requiring the importation of less active ingredients, and end consumers, with the introduction of less harmful products.

Despite the current economic situation, the agricultural industry is doing well in Mexico. While it may not be as advanced as other markets in the region, it offers considerable potential for companies that can understand and adapt to its specific needs. The next few years should see an influx of new players, the consolidation of those already in the market and the continued success of local producers.

The introduction of new regulations in 2010 may well help to improve the registration process. While these changes might not be good for some companies in the short term, they should help the industry to become more competitive, bringing production quality in line with international standards.

There are still significant challenges for the sector, however. Most importantly, the government needs to ensure fairer, clearer registration that provides a level playing field, improve bureaucracy and tackle the inefficiency that continues to hamper development.

Land ownership issues limit large scale commercialisation in many areas and much of the industry is in need of modernisation, so the market may not grow significantly in the medium term. However, with less than 50% of Mexico's agricultural land currently being cultivated and an excellent variety of favourable climates, the long-term prospects for the region, and those who choose to invest in it, looks promising.

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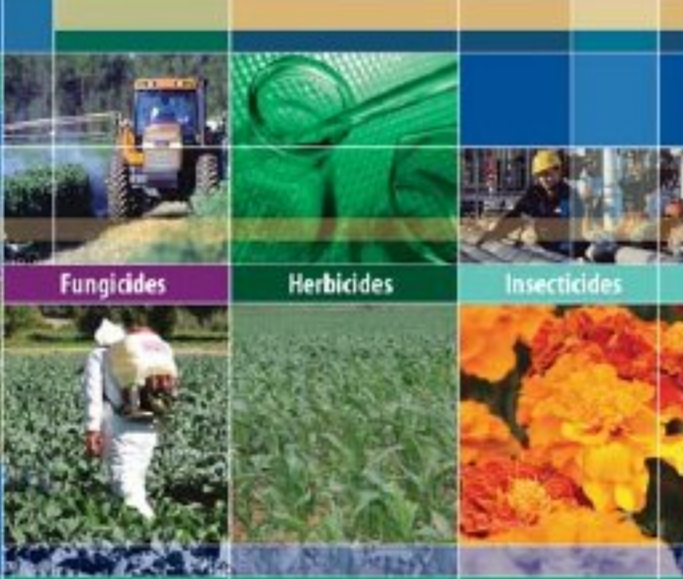

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Pharmaceuticals: Powerful pote

With a population of 110 million, Mexico is the largest and most developed pharmaceuticals market in Latin America, the ninth biggest in the world and one of the ten largest producers of medicines worldwide. In 2008, sales were $13.48 billion and they are predicted to reach $27.33 billion by 2013.

Pfizer has a facility in Toluca

In the last two decades, the industry has undergone an extended period of upheaval. The opening up of the country in the early 1990s and the crucial introduction in 1991 of legislation protecting patents and IP rights resulted in an influx of foreign investment in the pharmaceuticals industry, in line with the aims of the Salinas administration.

Shorn of its monopoly and government protection, much of the local industry was ill prepared to compete with the arrival of the large quality players, high quality manufacturing and innovation. The decline of the chemicals industry and the ensuing lack of local raw materials and API manufacturing compounded the industry's problems.

Relying on imports for raw materials and dealing with increased competition, the number of local manufacturers has declined from 1,500 in 1980 to just over 200 today. For the most part, the survivors are a mixture of a few high technology firms and numerous smaller local players.

While the opening of the market has had a negative effect on the number of local producers active in the industry, it has proved to be beneficial for its quality, reliability and professionalism. Companies that have survived have done so by adapting and evolving to the changing market.

With the requirement either to partner with local companies or to have production facilities in the country, the Mexican pharmaceutical market has opened more gradually than others to foreign companies, ensuring the continued survival of local players. Nevertheless, most of the major international pharmaceuticals companies have a presence in Mexico and more are to come.

Recent legislative changes are set to have a huge impact. A move to abolish the requirement to have a local manufacturing presence in Mexico will increase the amount of foreign competition, while a reform of the Health Supplies Regulation, coming into effect from 24th February 2010, is introducing significantly stricter manufacturing regulations.

Growth of generics

The biggest development currently affecting the industry in Mexico is the growth of generic drugs. With a large population, many of whom have limited means, generics would seem to be an excellent alternative to branded treatments. Only in the last few years, however, has the market taken off.

Generic medicines have been in the Mexican market for around 30 years but in the past there were significant quality problems and confusion over the term. Many inferior, less effective medicines were sold as generics by unscrupulous pharmacies, giving them a poor image.

Nine years ago, the government introduced the concept of interchangeable generics. This meant that all generic products must be exactly the same as the patented equivalent, says Dr Dagoberto Cortés, director general of Laboratorios Hormona and President of ANAFAM, the national association of pharmaceutical manufacturers in Mexico.

Recognising the potential of generics for both their own public health expenditure and for public health of in general, the government has supported the development of generics. ANAFAM and the national chamber of the pharmaceutical industry, CANIFARMA, have worked hard to change the public's perceptions, providing information through doctors, hospitals and advertising campaigns.

Manufacturers, such as Apotex, Liomont, Silanes, Tecnofarma and Laboratorios Hormona now provide high quality generic medicines for 60-80% less than the branded alternative. In the past three years, the public has become more aware of this and the market has taken off.

By 2013, it is predicted, generics could grow from 10% of the current $25 billion market to 15% and their share could reach 30% in a decade. The current economic climate has further boosted generics. Sales in the branded market have declined by 7% this year, while generics have increased by 45%.

Naturally, wholesalers and distributors are becoming keener on handling generics. As Héctor Carrillo, director general of Latin America for Canadian generics producer Apotex, explains: "In the past, large wholesalers did not want to carry generics, as they thought they would obtain smaller margins. Now, however, they have realised that the margins can be very high, so we are seeing considerable demand from them."

Unsurprisingly, there has also been significant interest in Mexico from Big Pharma giants. Bristol-Myers Squibb has just entered the market, Sanofi-Aventis reinforced its position by buying local pro-

ential in Mexican market

ducer Laboratorios Kendrick in April, while Novartis's generics arm, Sandoz, has a considerable presence in Mexico as well.

Given their growth in the global market, Asian firms are also getting in on the act. Indian firm Ranbaxy Laboratories, for example, established a wholly owned subsidiary in Mexico in 2004. At the moment, it seems that there is enough room in the market for everyone, but competition looks set to grow fiercer in the future.

New regulations

The current legal still causes some problems for generics. Werther Rodríguez, director general of Mexican generics manufacturer Tecnofarma explains: "Legally a pharmacy must supply the exact medicine prescribed by a doctor and cannot replace it with an alternative."

This is set to change next year, but he feels there may still be problems with the large pharmaceuticals companies influencing the prescription process towards their own branded products.

The other important development for the industry is the introduction of the Health Supplies Regulation This aims to tighten up the renewal and registration of pharmaceuticals.

Hitherto, laboratories only had to register their product once, now they will have to do so every five years. Furthermore, products on the market will be required to undergo bioequivalence testing to prove their quality and interchangeability. The result will be a marked increase in the quality of products available on the market and a regulation system on a par with its international counterparts, such as the FDA and the EMEA.

Many in the industry welcome the change. Local manufacturers who have invested heavily to increase their quality of production see it as a chance to grow and feel that it will have a positive impact on the industry's image.

"We, the national laboratories, have transformed this challenge into an opportunity," says Iñaki de Izaurieta Lasa, who is the commercial director of Mexican manufacturer Mavi Farmacéutica. "Indeed, over the last years we have had explosive growth, because we have understood the need for strict regulations and have turned the new requirements in our favour."

Companies that have anticipated developments will be well placed to benefit from the changes, Izaurieta Lasa adds. "We defend the requirement for the renewal of registrations. We do not want an extension to the deadline in 2010, because we have done our homework and we currently have a competitive advantage over the rest."

Not everyone is so enthusiastic, notes Jaime Uribe de la Mora, director general of Probiomed and president of CANIFARMA. "There is a battle between the companies that are well prepared for the new regulations and those smaller laboratories that are asking for an extension of the deadline. Most probably there will not be an extension."

With the high cost of testing and upgrading manufacturing lines - bioequivalence testing alone will cost about $100,000/product - many smaller companies and product lines will disappear. More than half of the local manufacturers do not currently comply with good manufacturing practice standards, according to Tecnofarma's Rodríguez.

Conversely, says Cortés, those still there for the new legislation will be of the highest quality and the industry's international image "will change abruptly". This should open the door for more investment in the industry and allow Mexico to capitalise on its proximity to both North and Central America.

There are, however, some concerns over the government's ability to manage the transition.

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Yves Savoir, managing director of local player Techsphere, feels that "the health ministry is overstressed and does not have the resources to enforce all of the regulations."

Others are also concerned that the new regulations do not adequately cover the import market and that there remains a danger of low quality products coming in unchecked from abroad. With tighter regulations, counterfeit drugs could also become more prevalent. CANIFARMA says that it has identified cases of this.

Production & access

With the decline of local manufacturing, access to raw materials has become crucial for local manufacturers. Whereas 20 years ago 75% of APIs used in Mexico came from the local market, there is now no local chemical production and 90% of the cost of a pharmaceutical product manufactured in Mexico depends on products purchased from abroad.

Because of this, the fluctuating exchange rate is proving particularly problematic for cost structures. Some companies have sought to address the problem by dealing directly with manufacturers in Asia, though this is not always straightforward.

"It is possible to buy directly from the producers, but many manufacturers don't because it is difficult," says Rodríguez. "Compared to the API manufacturers, we are very small companies. It requires a lot of time and effort to get a response from them." With perseverance, however, the rewards can be considerable. Rodríguez estimates that his raw materials costs are now 30% less.

The fluctuating exchange rate and cost of raw materials are currently proving particularly problematic for large supply contracts. Companies including Apotex and Tecnofarma have experienced problems and have lost money on fixed rate contracts as costs have risen.

IMSS, the Mexican Social Security Institute, which is responsible for nearly half of all public drug expenditure, is organising a tender for the supply of medicines for a 30 month period starting from October 2009. Thus there is a danger that the problem will persist and the industry is currently trying to renegotiate terms.

While not as profitable per unit as supplying the private market, government contracts offer a reliable, ongoing revenue stream and are proving particularly useful in the current economic climate. Only a few companies are capable of meeting the high volumes of demand.

The Mexican Ministry of Health raised the budget for the Seguro Popular health insurance programme by 31% for 2009, ensuring that public health will continue to be a valuable market. ANAFAM is keen that the government maintains its requirement that medicine should be produced in the region.

The requirement to have a physical presence in the country in order to supply pharmaceuticals is now being lifted for the private market. The result will be a fresh influx of companies on the market and tougher competition from Chinese and Indian manufacturers supplying cheap imports.

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All the same, with registration still required in Mexico, the complex legal and bureaucratic process, which takes around 18 months, should prove a barrier to entry. Furthermore, a lack of knowledge of the market and the challenge of distributing within the country will mean that many foreign companies will choose to work in partnership with local firms.

In such a competitive market, both local and international players have had to adapt to succeed. While the large international players have the advantage of a wide range of patented products, extensive R&D resources and established manufacturing expertise, they have had to change to the needs of the market, sometimes with mixed success.

"In Mexico, the demand is mainly for blister packaging as opposed to bottles, says Héctor Carillo of Apotex. "There aren't qualified people to dispense them in pharmacies, so size and quality are very important. In the region many customers buy a single tablet daily. Some European companies come to Latin America offering bottles of 100 tablets and, of course, they don't sell."

Promoting directly to doctors and hospitals, big Pharma firms are countering the challenge of generics by offering the highest quality products and latest innovations. While many consumers are hard placed to afford such drugs, the growth of the middle class and health insurance programmes provide a significant market.

In such a large and diverse market, sales are key to gaining market share. Companies such as Labotorios Hormona, whose sales force visits 20,000 doctors every week, are extremely active in promotion. With size and infrastructure limitations providing challenges to getting products to market, effective distribution is also key to achieving sales.

As Ismael Flores, President of Latin America for pharmaceutical raw materials and reagents supplier Mallinckrodt Baker explains: "Service is another important advantage. We always ensure that our products are available to customers by ensuring an efficient supply. If a distributor has the product available customers will buy it, if not you lose the sale."

Companies like Mallinckrodt Baker and Apotex also have the added advantage of being able to combine their knowledge of the local market with the considerable resources of their parent companies. Flores describes this as "a big advantage for us against international competitors."

Although there has been significant investment in manufacturing in the region, the same cannot be said for research and innovation, with foreign firms importing it in and local producers focusing on quality rather than R&D or new products. Only one in every 2,000 workers in the Mexican industry is involved in R&D.

Techsphere, whose CAFET R&D centre has been operational for 20 years and has produced 33 patents, is one of the few exceptions. According to Savoir, Mexicans tend to see science as "a mere job rather than the real challenge it can be", though he has succeeded in finding able people to work there. Others, like Laboratorios Hormona, have developed relationships with universities and research centres.

Rodolfo Rosas, director of corporate affairs at Novartis feels that "most of the research that is being done isn't being capitalised on". Through the introduction of its biotechnology campus in Mexico, offering students and researchers in the fields a chance to commercialise their ideas, Novartis is hoping to encourage innovation in the country.

A move towards increased research and innovation would certainly benefit the Mexican industry in the longer term. However, without government support and incentives to kick-start development, it seems that, for the time being at least, the industry will continue to concentrate mainly on licensing research in from abroad.

Rodriguez - Rewards for persistance

Despite the recent economic slowdown and problems in the local economy, as well as the perennial issues of local bureaucracy, a limited infrastructure, high energy costs, ever fiercer Asian competition and the difficulty of raising funds, the Mexican pharmaceuticals industry is continuing to do well. With tighter manufacturing restrictions, the quality and reputation of the industry is set to increase.

Both domestic and international companies are expecting healthy growth this year. As Mallinckrodt Baker's Flores observes: "Mexico is a country with a lot of opportunities. If we can get just a few things right we will see a lot of investment."

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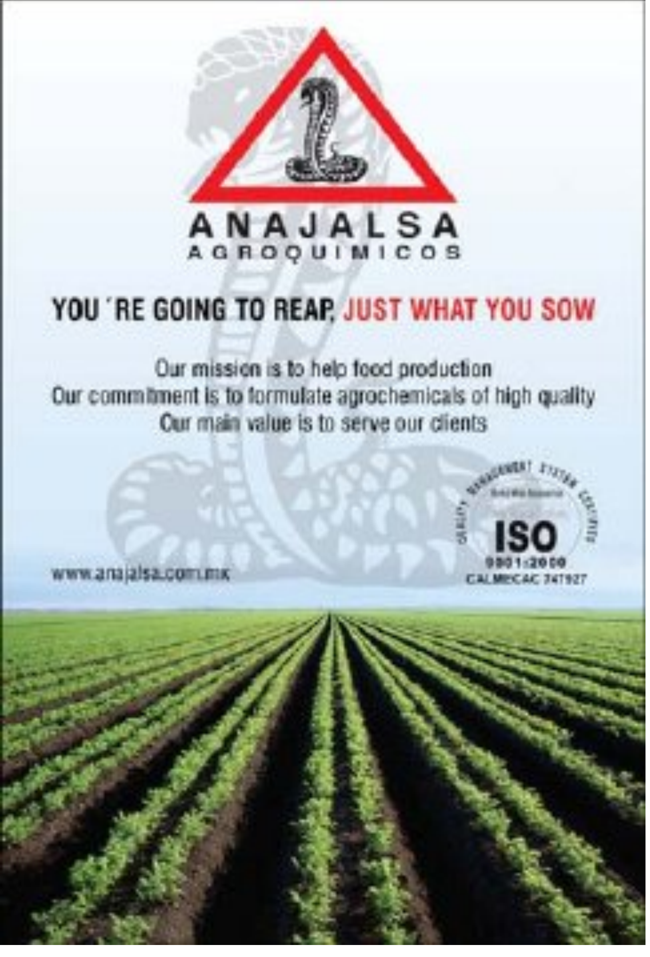

Distributors: Subcontracting efficiency

Globalisation, instant communications and worldwide transportation networks make possible direct trade between providers and their final customers, with no intermediaries. However these processes have costly structures associated with them, especially for large manufacturers with thousands of customers dispersed in many different locations that are very far away from each other.

In a country like Mexico, with a large territory and population and a fragmented customer base, traders continue to make sense, because they play a very important role in connecting producers with their client. Morever, they can also increase efficiency and reduce costs.

"Manufacturers can no longer take care of all markets and all clients. This is costly and distributors are becoming increasingly important", states Leopoldo Aristoy, general manager in Mexico for Univar, one of the world's largest dealers.

This is especially the case in the chemicals sector, where Mexico's importrs are constantly growing. For foreign companies who cannot afford to set up their facilities locally, finding a national distributor is an essential step to reaching the Mexican market:

"We are not a self-sufficient country. Raw materials are mostly imported. The manufacturers, increasingly aware of cost-efficiency, have realised that it is in their best interests to outsource the distribution", explains Eduardo Salinas, managing director of High Chem Specialties.

For Salinas, the problem is that many clients still see traders as an extra expenditure. "Distribution companies are not valued by the industry as they should be. Many manufacturers still see distributors as an intermediary that adds unnecessary costs to the value chain. The truth is, working with us, manufacturers gain far more flexibility than if they did the job themselves," he claims.

Market conditions are suitable for further growth among distributors in Mexico. The signature of free trade agreements with various countries, mainly but not only NAFTA, coupled with the closure of many Mexican chemicals plants, has created business opportunities for importers. Indeed, many of the major Mexican dealers' whole strategies are based on the distribution of products that are not available nationally.

This is the case, for instance, of Charlotte Chemical, Mexico's main distributor of chlorinated paraffins: "Our chemical division started 20 years ago, as the country opened its borders to foreign trade. We saw there was a good opportunity to import chemical products that were needed in the national market. Our bottom line has always been to import products that have no competition from national producers", says Flor Gómez, the firm's general manager.

Aristoy - Distributors reduce costs

Diversification

For both buyers and sellers, traders can generally offer a wide product portfolio as well as a big customer base. In Mexico, a country that has suffered continuous economic crises, it is not uncommon that companies active in the chemical distribution area have other divisions within the same corporate structure, with interests as diverse as paper, food or real estate.

"Our strategy has been to diversify as much as possible. With growing competition from China, Ukraine and the US, it is also an effective way to maintain market share", says Miguel Valdivia, commercial director of Trade Chemicals, a distributor specialised in chemical raw materials.

"We are children of crisis", adds Armando Santacruz, managing director of Grupo Pochteca, a big distributor listed on the stock exchange. "Anyone between 35 and 60 has seen recurrent crises in Mexico. This teaches lessons, one of which is not to have all your eggs in one basket".

He adds that the company delivers over 20,000 orders/month on credit to over 6,000 customers and has an entire human resources team to chase these payments. No single customer accounts for over 3% of the company's sales.

"This allows us to provide credit without putting the company at risk. It also allows us to walk away if a customer's demands become unacceptable, which is very hard to do when you have 30% of your business with one single customer," says Santacruz.

The impact that the global economic crisis has had on the Mexican economy, however, is causing many clients to pay late or even to default. Chasing payments when you have thousands of customers can become a real headache.

"It is difficult to manage all our money collection, especially in these times of crisis. The devaluation has hit the industry really hard, and small clients are having problems paying", says Daniel García, managing director of Egon Meyer, a distributor of bulk chemicals, which counts around 3,000 active clients.

For smaller dealers, ensuring money collection and cash flow is even more important: "By not giving credit and demanding on the spot or advanced payments or stipulating payment within 20 days, we have been able to maintain a high level of liquidity," Valdivia claims.

Focus on specialities

Distributing commodity chemicals in large volumes is not the same as finding a market for highly specialised products. Manufacturers of bulk volumes may ship orders directly to their clients, yet the producers of performance chemicals know that they rely heavily on distributors to persuade the final customer of the need to use their latest technology or products.

"In the specialities business, you don't sell large volumes but you need to work very hard in order to sell the products. Specialties are more profitable

but positioning the products can take up to five visits to the client before you get a sale. Once you succeed, it is very likely the client will buy the products again", explains Aristoy of Univar, where specialities account for "60% of the sales, and 80% of the efforts".

Distributors who used to have bulk chemicals as their main source of revenue are increasingly moving towards the more specialised section of the industry, where margins have not yet been squeezed to the minimum. High Chem Specialties, Macropol and Química Delta, for instance, all have a strong focus on the speciality business today.

"The greatest challenge for all distributors is that, as the products that you sell become commodities, the margins decrease. So you need to change faster than the market or proactively push the market to change", explains Alfredo Ison, managing director of Química Delta.

Traditionally focused on commodity chemicals and with a very lean, low-cost structure as its main advantage when compared with its competitors, Química Delta is having to invest more in human resources now that it is implementing a strategy to enter the specialities market aggressively.

"Last year we signed agreements with 15 new suppliers all around the world. For 2009, we expect specialities to reach 7% of our sales, whereas in 2008 it was barely 0.5%," Ison adds. The company expects sales for 2009 to be in the region of $114 million.

Ison - Distributors must force the pace of change in the market

Macropol, a smaller distributor that makes 70% of its sales out of speciality chemicals, is also aware of the efforts that are required to maintain a good position. Managing director Eloy Cordero says: "We need to be very patient: we have to sell ideas, not products that the clients are already using. Very often the clients do not even know about the products. We sell effects and performance rather than products: whiter teeth, brighter colours, more resistant plastics and so on."

A permanent effort to renew the product range is perhaps the best preventative medicine against future economic downturns. Cordero insists that one of the aims of Macropol is to renew its product portfolio fully every five years. Market conditions will be increasingly tough, but with this approach, the most up-to-date distributors will definitely have a niche to work in and profit from.

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Paints & coatings: Holding on ti

The Mexican paints and coatings industry has experienced significant upheaval over the last few years. Whilst the sector grew considerably in 2006 and 2007, rising oil prices and the ensuing high cost of raw materials halted growth in 2008. Despite price decreases towards the end of the year, the industry has been further affected by the world financial crisis.

With an average consumption of just 5.2 litres/head in 2007 compared to 8 in Brazil and 15 in the US, there is considerable potential for growth in this approximately $2 billion/year market. Nonetheless, growing competition and market stagnation are forcing many companies to re-evaluate their business strategies in order to survive.

The industry has received considerable investment in the past decade. Many international firms, including BASF, Dupont, 3M, Merck, Sherwin-Williams, Eastman Chemical and Reichhold, have committed themselves to Mexico and have bought up many smaller companies to boost market share.

Local giant Comex, the fourth largest paint manufacturer in North America with sales of over $1 billion/year, is the dominant force. However, the many SMEs are increasingly squeezed between all of these behemoths.

Architectural paint is historically the biggest market, accounting for 44% of sales in 2007. Not far behind comes the OEM sector, including automotive (32%), while special purpose paints had an 18% share and resins 6%. However, given that the latest market figures come from 2007, there is some uncertainty over the current state of the market.

"We don't know the 2008 figures yet and in 2009 it is very difficult to predict how the paints industry is going to behave, because paints used by many industries affected by the crisis," observes Arius E. Zúñiga Lara, president of the National Association of Paint & Coating Manufacturers (ANAFAPYT) and of Comercializadora Jasaquim.

Automotive production is down 41% this year, which must significantly impact sales to the OEM sector. Architectural paint is also suffering, according to Ricardo Rodríguez, director general of the large Mexican roof coatings manufacturer Impac.

"The construction industry in Mexico is not doing well," he says. "A lot of new projects have been put on hold and there are very few new houses being built. Many big construction firms have almost stopped their activities completely."

Consumer spending is also down. 30% of the population is saddled with credit card debt and the era of cheap credit is over, so the lack of consumer spending is affecting sales, Rodríguez believes that "the crisis has reached a level where most people are scared about spending more than they should".

In a move to provide some stimulus to the economy, the Mexican government is investing heavily in infrastructure projects, particularly in roads. The move

DuPont warehouse near Mexico City

seems to be providing some respite for the beleaguered industrial coatings and architectural sectors.

Zúñiga, however, cautions that the projects need to be fast-tracked: "Because of past corruption problems, the process to release funds for these projects is cumbersome. This crisis requires quick solutions, we cannot wait several months to see the projects taking off", he says.

Car refinishing is doing well, by contrast, as customers invest in repairing their existing vehicles. Similarly homeowners are continuing to invest in house repairs and cheap Mexican furniture is continuing to experience high demand in both the US and Mexico. Recognising the market potential in furniture coatings, Comex started a joint venture in this field with Brazilian coatings company Renner Sayerlack in Q1 2009.

As the US economy begins to show signs of recovery, there is a growing feeling in the industry that the crisis has hit bottom. Many firms are predicting an upturn in Q1 2010. Furthermore, despite currently being in dire straits, Alfredo Garcia, business manager of pigments at Merck KGaA believes that Mexico's car industry is poised to grow to be bigger than Canada's and, in a few years equal to that in the US.

Compounding the decline in sales, the devaluation of the peso against the US dollar is putting extra pressure on the industry. As Zúñiga observes, "Companies already have a cashflow problem, so the exchange rate comes as an extra burden." The decline is affecting both suppliers and companies that manufacture end products locally.

According to Tomás Beomonte, CEO of the NAFTA region for Brazilian chemicals multinational Oxiteno, which expanded successfully into Mexico starting with the purchase of the historical Mexican company Canamex, and subsequently purchasing three more businesses, the sector is "suffering not only from a decline in sales, but an increase in the cost of raw materials. As we sell to the local market in pesos, we have been affected by the recent devaluation."

The devaluation of the peso, Beamonte thinks, may help exports in the future but it is certainly damaging the industry at the moment. He adds: "In the long term it will make us more competitive in the North American market, but we are taking a hit in the short-term as we don't pass these costs to our customers. In the current market access to raw materials is also proving problematic. However, we are taking the opportunity to assess our strengths and weaknesses and prepare ourselves for the upturn." Despite this situation Oxiteno has been growing, as a result of a combination of increased investment, technological improvements, support from the group and aggressive expansion. But not everyone may count on such strong competitive advantages and the decline of petrochemical manufacturing in Mexico has placed much of the industry at the mercy of foreign imports and is hindering its growth and development.

Over 50% of raw materials used in the industry are imported and there is growing competition from abroad, so manufacturing costs are critical for the local industry. Samuel Troice, manager of local paint producer Pinturas Acuario, observes: "China can sell at prices 15-20% lower than ours. We have a big problem with prices. Every day, there are increases in the cost of chemicals, cans and other materials."

One solution to the high cost of raw materials is to manufacture their own. Very few players in the Mexican market do this. Impac is an exception, because it has its own reactors to produce resins and polymers and can thus make raw materials cheaper, ensure quality and create unique formulations, according to Rodriguez. However, the initial costs are high and prohibitive to many smaller producers.

Not everyone is pessimistic about the future of local raw material production. Possibly uniquely over the last 15 years, Grupo Beta began production in 2006 and is due to start production of hydroxyl ethyl cellulose at the end of the year. Raúl Baz, chairman and CEO, believes that there is considerable untapped potential for raw material manufacturing in Mexico.

"I think that there are an awful lot of opportunities in Mexico for petrochemicals, a lot more than people realise," Baz says, though he also feels that most companies are not in a position to take these opportunities. "My opinion is that a lot of entrepreneurs in petrochemicals in Mexico have been devastated. Many Mexican companies don't have an entrepreneurial mentality and aren't willing to take risks."

One way for companies to beat the downturn is through investing in better technology. With a payback both in terms of improved quality and efficiency, there can be significant advantages. Says Zúñiga: "Quality is a must for the Mexican paints industry. You need to follow the same standards and quality norms as in other parts of the world in order to be competitive."

Troice adds: "The only way to compete with other countries is by being more efficient. We are competing by being more efficient with service and quality." Complying with ISO 9001:2000 standards, Pinturas Acuario's investment in facilities has enabled it to produce quality products at competitive prices, he claims.

ght in hard times

Other players are following suit. Gaining internationally recognised certification also opens up the potentially lucrative export market. Unfortunately, for the majority of smaller manufacturers, technological investment is not financially feasible at the moment.

With the loss of sales in traditionally strong markets, diversification is another useful strategy. Pinturas Acuario, for example, has recently diversified into providing special paints for oil rigs. The successful *maquiladora* manufacturing industry on the US border and the growing aerospace sector present other possible avenues to explore.

With some exceptions, there is generally little investment in R&D among the local SMEs. Large multinationals and Comex, meanwhile, are using innovation and specialisation to retain their competitive advantage.

Some parts of DuPont's coating division, for example, are doing parts of their R&D work for companies like BMW in Mexico. "Companies in Mexico are very open to new things. If you want to try a new technology this is the perfect test ground," says Pedro Fernández, the company's vice-president for the Americas.

Although Mexico is not one of its main research centres, Clariant has realised the benefits of conducting R&D here and is doing some of its colour research, says general director Fernando Hernández. "It's not basic research to find new molecules, but we do lots of product innovation: how do we make a red pigment more transparent, brighter or more biodegradable?"

Similarly, in February of this year, Comex opened its Visual Colour Evaluation Lab, designed to understand and improve colour production and perception in architectural paint. With specific climatic needs and cultural tastes, creating products tailored to the local market could prove to be an excellent way of gaining competitive advantages.

In the face of growing competition from Asian producers, providing something extra is proving to be particularly beneficial. Rhodia, for example, is aiming to grow in specialities rather than commodities. Luis Fernando Maida, director general of Rhodia Mexico, says: "When you can add value for customers there is a lot of potential for growth in these markets."

Similarly Gabriel Siles Zuloaga, director of sales at Reichhold, explains: "To offset the challenges of a saturated market and the fact that large paints manufacturers increasingly buy smaller players and feed them with their own resin, we are focusing strongly on innovation." For instance, it has produced a pre-emulsified alkyd resin "in a user- and environmentally-friendly, watery state."

Recently Rhodia has introduced a line of high performance non-VOC and APE-free eco-friendly solvents, while other manufacturers and distributors are introducing water-based surfactants. Given that environmental concerns still are not very high on the agenda of most manufacturers in Mexico, the main attractions of these innovations for the market are better performance and cost reductions.

While some companies are modernising, much of the industry is still undeveloped, reliant on outdated technology and producing inferior products. The introduction and enforcement of tighter regulation, in line with international standards, which ANAFAPYT is promoting vigorously, could serve to improve the industry's performance and capitalise upon considerable export opportunities.

The cost of raw materials is another serious obstacle to development. Unless Pemex opens up petrochemical production, it will continue to limit the Mexican paints and coatings industry. With manufacturing set to increase and new markets to be developed, the current economic crisis may well prove to be a turning point.

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