

## OPPORTUNITIES FOR THE MATERIALS HANDLING MARKET IN MEXICO

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Mexico is currently the third largest export market for U.S. pallets, and the United States is the primary supplier of wooden packing material to Mexico, with a market share of 88% in 2000. Our exports of wooden pallets and containers to Mexico in 2000 reached \$17.7 million. Although significant growth has been achieved over the past few years, this market remains largely untapped.

The structural wood panel industry is the leader in supplying materials handling products from the United States to Mexico. Many exporters who use non-returnable pallets and crates are concerned primarily with price. For this market niche, OSB has an advantage due to its low price. For other exporters, durability and strength are priorities. Exporters of products such as electronics, chemical compounds, and automotive parts tend to ensure the safety of their products by using good quality and resistant packing material. Maquiladoras, which are Mexican companies located along the border that typically import parts to be assembled and re-exported, in particular have become more demanding in terms of packaging strength. The maquiladora industry has turned Tijuana into the world capital of manufacturing televisions, for example. These users are a source of potential growth for plywood pallets and panel-decked pallets, which can meet the demands for high quality and strength.

There are also Mexican exporters who are using captive handling systems, with pallets that can be reused many times with a minimal maintenance cost. This is where re-usable panel-decked pallets have been making progress. Packing materials made of OSB and structural plywood are also potential benefactors of this growing segment which is likely to expand.

### Regions to Target

Some of the key growth regions are along the border where maquiladoras are located. They produce auto parts, electronics, and other such manufactured goods that require heavy-duty packaging materials. It is also more affordable to sell to these regions because within Mexico, freight costs are relatively high. Other areas to focus on are Hermosillo, Mexicali and Sonora where they have high economic growth, especially in agriculture and mining. Sonora has a standard of living much higher than the national average. The primary Mexican ports that imported wooden pallets from the U.S. in 2000 were Progreso, Lerma, and Puerto Morelos.

### Constraints

Canada and Chile are our major competitors in this market. We also expect competition from Brazil, due to their weakened currency, free trade agreement with Mexico, and government-supported plywood program. Other constraints to be aware of are a three percent duty on pallets that are classified under the HS code 4415.20.01, lack of familiarity with the panel life-cycle cost, traditional use of disposable board lumber pallets, and high domestic cost of freight. Phytosanitary restrictions for incoming green lumber into Mexico can be readily avoided by having Mexican authorities fumigate the load at the border at minimal cost.

### Marketing

The U.S. industry has been pursuing the industrial pallet market in Mexico for several years. In 2001, on behalf of the U.S. materials handling industry, American Plywood Association - The Engineered Wood Association (APA-TEWA) participated in several trade shows and targeted representatives of large Mexican multi-national companies. They found that the flexibility of the custom-made pallet presents significant opportunities for U.S. suppliers. Supermarkets and large distribution centers like the central markets and the agricultural community constitute attractive and

large markets. Government warehouses for feed grains also offer a growing opportunity for panel-decked materials handling devices.

Anyone trying to market their products should remember to be flexible and remember that the needs of a brewer and a television manufacturer are not going to be the same. Quality is where the United States has an obvious advantage, but once you work to understand your customers' needs, it will be flexibility that will help you to meet those needs better than the competition.

\* Sources: Solid Wood Products Annual Report from U.S. Embassy Mexico, trip reports from APA-The Engineered Wood Association, statistics from U.S. Department of Commerce and Piers database.