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NAFTA propels business on both sides of border

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The North American Free Trade Agreement, a policy which celebrates its 10th anniversary this year, removed many trade barriers between the United States, Canada and Mexico.

NAFTA has helped Houston solidify its position as a gateway to Latin America as companies in industries such as oil and gas, telecommunications and agriculture are establishing bases in Mexico and in other Latin American countries and companies in that region are establishing U.S. headquarters here.

Houston's large and active Hispanic community remains a major ingredient for the success of ventures on both sides of the border.

Coming to America

In 2000, Gabriel Navarro, CEO of Klass Time Ltd., chose Houston as the U.S. headquarters for his Mexico City-based company that manufactures Hispanic food and beverage products such as aguas frescas.

In tapping into the U.S. Hispanic market, Navarro wanted to target three major areas: California, Texas and Chicago.

"We decided to establish a company in Houston because it as centrally located," he says.

The Houston office is used to import and market Klass products.

NAFTA played a large role in Klass' decision to look north. It allowed the company to have duty-free trade on produce that Klass managed.

Initially, Mexican exporters were granted a small duty-free quota with a high tariff charged for sales over that amount, according to Foreign Agriculture Services, a division of the U.S. Department of Agriculture.

The transition period for dairy products, cotton and sugar-containing products, which are most of Klass' products, will start phasing out this year, with most tariffs ending in 2008.

Navarro says the company was able to handle the sugar situation smoothly and is looking forward to the end of the transition period.

"It has definitely been a great experience," Navarro says. "We have grown a lot since 2000, and we are still growing."

Moving south

Dealing with foreign government policies is one challenge that American companies may be faced with when opening a Latin American office, according to Carlos Treistman and Jos� Valera, partners with King & Spalding LLP.

"In the 1990s, many Latin American countries went through the process of privatization and demonopolization of large industries," Valera says. "At one time it was also illegal by certain countries' governments to investment money in local companies."

Being in a new place and in a new culture is also a challenge which may take some time to become acquainted with, but if done right, will be beneficial to the company, Treistman adds.

Miami and Houston

While Miami is traditionally thought of as the "Gateway to the Americas" because most exports and imports from the region go through the city, local trade experts say Houston is gaining momentum as an alternative to Miami.

"Many people refer to Miami as the 'capital of South America,'" says Jerry Metcalf, a partner with Thompson & Knight LLP. "Houston will never surpass Miami -- it will always be the gateway to the Americas, but in the past five to 10 years, Houston has done a good job of setting up a viable gateway without the trials and tribulations of the difficulties of passing through Miami."

When importing or exporting to Mexico or Central America, Metcalf says, Houston is logistically easier because of the city's central location.

Of the industries most likely to establish a Latin American office, Metcalf says he sees mainly energy companies heading south, but that transportation companies are also jumping on the Latin American bandwagon. As for foreign companies coming to the United States, he says medical companies are choosing Houston for the Texas Medical Center.

Continental Airlines Inc. is one company embracing its Houston hub's proximity to Latin America. The airline currently flies throughout Mexico and the Caribbean, Central America and select countries in South America.

"Continental evaluates the market and the businesses in those countries to make sure that there is interest for the flights," says Maria-Christina Osorio, a Continental spokeswoman. "We use that information to make a decision on where to establish flights."

Starting in June, Continental's flights will expand the area even more. The airline is adding nonstop service to Montego Bay, Jamaica and Port of Spain in Trinidad and Tobago. It is also beginning nonstop flights to Quito and Guayaquil in Ecuador, and Roatan, Honduras. In Mexico, Continental has also added nonstop flights to Monclova and Puebla, and in June, will add Oaxaca and Toluca to the list.

The NAFTA story

Canada and Mexico are, respectively, the second- and third-largest export markets for U.S. agricultural products, according to the USDA. Exports to those two markets combined are greater than exports to Japan or the 15-member European Union.

In 2000, slightly more than one out of every four dollars earned through U.S. agricultural exports was earned in North America, according to the Foreign Agricultural Service/USDA from U.S. Census Bureau.

During that same year, the USDA reports that approximately $273 million worth of agricultural products were shipped from the United States to Canada and Mexico each week, an increase of $137 million a week and $7.2 billion a year, compared with what had been shipped during the four years prior to NAFTA.

In terms of trade with Mexico, farm and food exports to the country from 1999 to 2000, rose to $6.5 billion from $916 million, according to the USDA.

The figure was the highest ever and the fifth record in five years under the agreement. Exports of products such as soybeans, cotton and rice, also set record during that time.

In the years prior to NAFTA, U.S. agricultural products were losing market share in Mexico largely due to increased competition to supply the market.

When NAFTA was established, it reversed that trend so much so, that now the U.S. supplies more than 75 percent of Mexico's total agricultural imports.

NAFTA also helped keep many Mexican markets open to U.S. farm and food products during the country's worst economic crisis in its history in 1995.

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