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Includes PSD Changes: No
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Unscheduled Report
Mexico [MX1]
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Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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UPDATE ON MEXICAN STANDARDS FOR SOLID WOOD PACKAGING MATERIALS

On January 23, 2004, the Mexican Secretariat of Natural Resources (SEMARNAT) issued an update notification regarding the phytosanitary standard to regulate solid wood products used as packaging material (NOM-EM-144-SEMARNAT). According to SEMARNAT, these standards will be enforced gradually in Mexico, on a time schedule similar to other members of the North American Plant Protection Organization (NAPPO). Contrary to trade rumors, exporters to Mexico that utilize wooden packaging materials to ship their merchandise, will not have to comply with the new standard right away. Inspectors at Mexican border crossings will, however, be conducting visual inspections. In the event a pest is detected visually, a determination, whether treatment, rejection or destruction of the packaging material, will be made. This same procedure has been common practice by the Environmental Protection Agency (PROFEPA) to avoid the introduction of pests of quarantine significance. The new standard (see MX4502) will not be fully implemented until SEMARNAT is sure that all Mexican exporting users and producers of wood packaging materials are in 100 percent compliance with this NOM. According to SEMARNAT, the date that is being proposed to the NAPPO for the strict application of the universal standard for these materials (ISPM No. 15) is July 1, 2005. (Source: ATO/Monterrey and Official Notification SGPA/DGGFS/712/0088/04)

JOINT OPERATION PROPOSES DEBONING U.S. CHICKEN IN MEXICO FOR ASIAN MARKET

Representatives from USA Poultry and Egg Export Council (USAPEEC) and Mexican Poultry Producers Association (UNA) met last week during the International Poultry Show in Atlanta. The focus of the discussion was the outbreak of high path Avian Influenza affecting nearly ten Asian producing countries and the current embargo imposed by leading Asian importing countries. USAPEEC and UNA discussed the possibility of both U.S. and Mexican poultry industries working jointly to meet the demand for boneless chicken meat in export markets such as Japan, Hong Kong and Korea. Taking advantage of lower labor costs, U.S. poultry exporters, aided by USAPEEC, will be identifying Mexican Federal Inspected (TIF) poultry and meat processing facilities approved by USDA/FSIS, that can hand-debone U.S. bone-in chicken meat products.

According to industry sources, between 8-10 local poultry and meat processing plants predominantly located in Northern Mexico may be able to initiate these operations in the immediate future. In the meantime, Mexico continues to make progress having poultry meat

processing plants approved by USDA/FSIS in order to export to the US market. (Source: USAPEEC Mexico and ATO Monterrey, 2/2/04)

WHEN BORDERS OPEN, MEXICO WILL BE FLOODED WITH U.S. BEEF

According to the President of the National Agriculture Council (CAN), Armando Paredes, thousands of Mexican cattlemen may go bankrupt once Mexican borders open again to U.S. meat imports. Since the closure of Mexican borders on December 24, 2003, U.S. producers and exporters have been accumulating inventories that they don't want to lose and once the time comes for international borders to reopen, shipments will come in force and under-priced thereby undermining Mexico's cattle and beef sector. (Source: *El Universal, La Jornada*, and *Milenio*, 1/28/04)

MEAT QUALITY ASSURED BY MEXICAN LIVESTOCK PRODUCERS

Livestock producers and the meat industry agreed before Secretary of Agriculture Javier Usabiaga to guarantee, through audit activities, the meat quality seal of TIF from the Federal Inspection Slaughtering Houses, that guarantees the hygienic handling of meat products. This was promised to the government due to the increasing demand by consumers of safe food products, and to prevent animal diseases, like the BSE case that occurred in the United States. (Source: *Excelsior* and *Milenio*, 2/02/04)

MEXICO IMPORTS BEEF FROM ALTERNATE SOURCES

Beef shipments from Chile are on its way to Mexico, and will be introduced through Manzanillo's maritime port. Although not large, these imports will help beef prices in Mexico to remain stable. The Commercial Director of the Chilean Embassy in Mexico stated that last year, SAGARPA certified four beef packing plants in Chile as eligible to export to Mexico. In addition, Mexico is importing beef from other countries such as Canada, Australia and New Zealand. With respect to Uruguay, SAGARPA has not concluded the visits for sanitary approval. (Source: *El Norte*, 1/30/04)

THE HFCS TAX IS AFFECTING CHOCOLATE MANUFACTURERS

The continuation of the special 20-percent tax on the use of high fructose corn syrup (HFCS) in beverages is posing a problem for the candy and chocolate manufacturers making them non-competitive. According to the Vice-President of the Confederation of Industry Chambers (CONCAMIN), this tax has distorted the sugar market, causing the soda bottling industries to corner the market, provoking rising prices and aggravating sugar availability for these industries. The candy and chocolate manufacturers have to import sugar at high duties of US\$395 per ton. (Source: *Financiero*, 1/27/04)

NAFTA NEGOTIATORS ADVISE CAUTION

Two Mexicans who took part in the NAFTA negotiations during the 1990s said that Colombia should move cautiously in its talks with Washington on a free-trade agreement and counseled against making too many concessions. Former Trade Secretary Jaime Serra Puche and businessman Juan Gallardo advised Colombia to move slowly at a forum held here to evaluate the 10 years of the North American Free Trade Agreement, which came into effect on January 1, 1994. "It's better to take a little longer than initially scheduled and get the best results for the country," Gallardo said. (Source: *El Universal*, 1/28/04)

NAFTA'S MEXICAN LOSERS

Former Secretary of Economy and main supporter for NAFTA negotiations, Jaime Serra Puche, admitted that the agreement signed with the United States and Canada left losers in Mexico. He added that those most affected were interested parties that were not able to react on time to the market opening process, did not know the details or misunderstand the process. Also, Serra Puche admitted that the Mexican agricultural sector is the most complex within the negotiations as there is a 5-year period remaining for the complete opening. "As an example, a significant protection to corn, which represents 80 percent of the basic grains in Mexico, continues. It's not possible, therefore, to evaluate NAFTA's effect on the main product yet," Serra concluded. Information from the "Commission for Labor Cooperation" indicates that in 10 years of free trade, 10 percent of the richest Mexican population increased their purchase power, while 90 percent were left in poor conditions. (Source: *La Jornada*, 1/28/04)

THE NAFTA IS INSUFFICIENT SAYS JEFFREY SACHS

Jeffrey Sachs, a recognized economist and Director of the Earth Institute at Columbia University, said that Mexico's economy should be growing at a higher rate, between 4 or 5 percent annually, and should have a better performance with the commercial opening. However, some measures applied in the past and other current circumstances have blocked this road. Sachs recognized that NAFTA's benefits have not been what experts expected. He stated that Mexico's private and public monopolies are negatives for the market, as they don't allow for competition. He added that education is one of the most important elements to force the development of the nation in the long run, as well as an investment in science and technology. (Source: *El Financiero* and *Reforma*, 1/27/04)

ECONOMIC GROWTH ESTIMATE FOR 2003 LOWERED

Mexico's Central Bank cut its 2003 economic growth forecast for a fourth time, saying the country's exporters lost U.S. market share to competitors in China and Southern Asia. The economy grew approximately 1.2 percent during the year, down from the previous estimate of 1.5 percent and less than half of the first forecast of 3 percent, Mexico's Central Bank Governor, Guillermo Ortiz, said at a news conference in Mexico City to present the bank's quarterly inflation report. He predicted the economy expanded 1.9 percent in the fourth quarter. "Under the best-case scenario, we will not be losing any more market share in the United States," said Ortiz. "But recovering what we have already lost would be difficult in 2004," he added. He forecast exports would rise 6.5 percent this year, helping fuel economic growth of as much as 3.5 percent. Mexican manufacturers, which drove the country's average economic growth of 3.4 percent in the 1990's, have curtailed production and pared staff over the last three years as their prices have been undercut by rivals in China, where labor and energy costs are significantly lower. The sluggish export growth has prompted concern among economists that Mexico's benefits from its free trade ties to the United States may be waning nine years after the countries signed the North American Free Trade Agreement. (Source: *El Universal*, 1/29/04)

U.S. AND CANADA CONSIDER MEXICO A POOR COUNTRY

According to the results of a survey conducted by EKOS Research Associates of values and attitudes toward North American integration, the people of Canada and the United States consider Mexico a poor country, divided and unfair. Despite this fact, there is a shared outlook between the Canadians and Americans that the economic welfare could improve through higher economic integration in North America. Increasing the effectiveness of

common policies on environmental aspects, defense and transport among the three countries were all seen as possible steps in the not-too-distant future. Another conclusion of this research indicates a broad consensus that NAFTA has had a positive impact, particularly on other countries. The United States is seen as the clear winner. The research was conducted in September 2003. (Source: *El Economista* and *La Jornada*, 1/28/04)

DON GUILLERMO ZAMBRANO LOZANO, PROMINENT INDUSTRIAL BUSINESSMAN, IN CHARGE OF RURAL DEVELOPMENT IN NUEVO LEON

Guillermo Zambrano was appointed last December by Nuevo Leon's Governor as head of what used to be the office of Rural Development. This office was previously under the command of José Rodolfo Farías (current ASERCA Director). The new office has been renamed, "Nuevo Leon's Corporation for Agriculture Development" and it is intended to operate under a more agile private sector type management. A non-governmental board comprised of important businessmen in their specific sectors will be coaching and giving advice to the operating government staff. The names of the members of the board have not been officially announced. (Source: ATO Monterrey, 12/16/03)

MEXICAN RETAIL SALES INCREASED 6.3 PERCENT IN 2003

The National Retailers and Supermarket Association of Mexico, ANTAD, reported that its member's annual sales were US\$25 billion in 2003. Supermarkets reflect 57 percent of the sales; department stores, 22 percent; and convenience stores, 21 percent. Sales increased 6.3 percent from 2002. (Source: ANTAD, 1/27/04)

MEXICO-JAPAN FTA NEGOTIATIONS FAILED

Mexican and Japanese representatives failed in their efforts to accomplish a Free Trade Agreement (FTA) between the two countries after an intense five-day discussion that concluded Friday. Representatives from both nations agreed to maintain constructive discussions in the near future to eventually conclude the negotiations that would bring benefits to both countries. A speaker said that the FTA was not signed due to critical differences on the approach to negotiating the trade of orange juice, fresh oranges, pork, poultry and red meats. Specifically, the main differences are founded in Japanese duties that would be applied to Mexican pork meat and orange juice. Both sides agreed to meet in another round table that could be held by late February. (Source: *Reforma*, 1/30/04)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

Number	Title	Date
MX4012	Weekly Highlights & Hot Bites Issue #4	1/27/04
MX4013	Semi-Annual Poultry Products Report	1/27/04
MX4014	Semi-Annual Livestock Report	1/27/04
MX4015	BSE Update Second Edition	1/29/04
MX4016	New Procedure for the Acquisition of Quota Certificates (Cupos)	2/3/04

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