



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 9/17/2004

GAIN Report Number: MX4112

Mexico

Agricultural Situation

Weekly Highlights and Hot Bites, Issue #36

2004

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Includes PSD Changes: No
Includes Trade Matrix: No
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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MEXICAN CITRUS PRODUCERS TO EXPORT TO JAPAN IN 2005

According to the Free Trade Agreement between Mexico and Japan, in 2005 Mexican citrus producers will have the opportunity to export 10 MT of fresh oranges duty free and 4,000 MT of orange juice at half the current tariff rate. However, Ausencio Mata, President of Mexican Citrus Council indicates that to be able to export orange juice concentrate there are several obstacles they will have to deal with, including, the variation of international prices for juice, the lack of a transportation system in bulk, and competition with Brazil. (Source: Reforma; 09/6/04, 09/7/04)

SMUCKERS EXPANDING MARKET PRESENCE IN MEXICO

Smuckers forecasts sales growth of 30 percent in supermarket sales for all products in 2004, due mainly to a vigorous ad campaign. In addition to jellies and jams, Smuckers markets ice cream and peanut butter in Mexico. Smuckers' factory in Zamora, Michoacan produces 80 percent of the products it sells in Mexico, with the other 20 percent imported from the United States. In addition, Smuckers imports about 50 percent of its raw materials from the United States. Smuckers indicates that all consumption of jellies and jams is in cities, where 80 percent is consumed at breakfast. The most common container size is 500 grams and strawberry jam accounts for 85 percent of sales. (Source: El Financiero; 09/09/2004)

THE MEXICAN GOVERNMENT COULD AUTHORIZE SUGAR IMPORTS UNDER A QUOTA FOR THE REST OF 2004

The Secretariat of Economy (SE) announced on September 3, 2004, plans to authorize a sugar import quota to supply domestic demand for the last three months of 2004. The SE believes that a lack of sugar in certain regions in Mexico and speculation in sugar prices could cause a decline in consumer purchasing power and the strategic sugar reserve. Therefore, the SE is considering establishing a quota of 100,000 MT of sugar with a preferential tariff between US \$35 and \$40 per MT. However, the supply/demand situation will be reviewed every 15 days to determine the volume of sugar to be imported under the quota. According to several newspaper reports, the end user sugar industries (soda-drinks, chocolate and candy manufacturers) are pressing the government to allow imports due to a lack of supplies. On the other hand, the Chamber for the Sugar and Alcohol Industries claims that such a measure is unlikely to happen as the new sugar harvest for MY 2004/05 is about to begin and there are enough sugar inventories to cover demand. However, the Chamber warns that in fact some of the end user industries are preparing a campaign to promote the partial use of fructose in soda-drinks. Food processors claim that the Chamber for the Sugar

and Alcohol Industries is overestimating their sugar inventories. (Source: La Jornada, El Financiero, El Universal, El Economista; 09/07/04; Boletín de Prensa de SE; 09/03/04)

SPECIALISTS URGE CREATING MECHANISMS TO REGULATE TRANSGENICS

During a forum on transgenics organized by a local newspaper, scientists at the Chapingo University, Mexico's National Autonomous University (UNAM), the National Polytechnic Institute and the Greenpace organization, talked about the challenges and opportunities that Mexico faces in biotechnology. Federico Sanchez, researcher at the UNAM Biotechnology Institute, stated that genetically modified organisms are in Mexico to stay. However, the country lacks laboratories and the regulatory agencies lack the resources to regulate the arrival of these new products in the domestic market. Mexico was the first world example of transgenic corn genes mixing with native varieties in Oaxaca and Puebla. (Source: El Universal; 09/08/2004)

US AGRICULTURAL, FISH AND FORESTRY PRODUCTS EXPORTS TO MEXICO ON PACE TO REACH 9.4 BILLION IN 2004

Based on export growth during the first six months of 2004 of 12 percent, exports of US agricultural fish and forestry products are projected to reach \$9.4 billion for the year. For the first six months there is growth across the following product categories: bulk, 18 percent; intermediate, 27 percent; and forestry, 11 percent. Record sales are likely in 2004 for both intermediate and bulk products. Leading the growth in bulk and intermediate products, and on pace for record sales are rice, wheat, soybeans and soybean meal and animal fats. Consumer ready product sales during this period are showing a decline of 1.5 percent, primarily due to the 30 percent drop in meat sales resulting from the BSE crisis. Other consumer ready products experienced significant growth such as snack foods, 12 percent; poultry meat, 44 percent; and dairy products, 69 percent. (Source: ATO Mexico City; 9/9/04)

BEEF FROM CENTRAL AMERICA ENTERING MEXICO VIA THE UNITED STATES

According to a local newspaper, Jose Valdez Cuervo, president of SGS de Mexico (a security firm hired by the GOM to combat contraband), warned that Mexico is receiving beef through the United States that originates from Central America, and that this implies a health risk to Mexico. SGS is helping Mexican customs combat imports of products that arrive directly at distribution centers with falsified export documents. (Source: La Jornada; 09/13/04)

FINANCE MINISTRY FORESEES A SLOWDOWN IN THE U.S. ECONOMY

The Mexican government, through the Finance Secretariat ("Hacienda"), projected 3.8 percent economic growth and 3 percent inflation for 2005, as part of a US \$150 billion budget plan for the coming year submitted to Congress this week. The 2005 budget proposal will not include a call for a value-added tax on food, although that option is open for legislators to decide, a presidential aide was cited as saying. The Finance Secretariat predicted the country will end 2004 with 4 percent growth and a fiscal deficit of 0.3 percent, a shortfall expected to shrink to 0.1 percent of GDP in 2005, with surpluses predicted for 2006. The government also projected an average exchange rate of 11.60 pesos to the dollar, a slight rise in 28-day benchmark interest rates to 7.8 percent, and a higher current-accounts deficit for 2005. The budget calls for a "realistic, if somewhat optimistic" projected average oil price of US \$23.00 per barrel for 2005, but also projects a 1.7-percent drop in federal revenues, to US \$148 billion, due largely to the expected decline in oil prices. Local and state governments will get an all-time high of 35.9 percent of their income in the form of revenue sharing with the federal government. Regarding the U.S. economy, the Mexican

government estimated that it will slowdown in the medium-term, which is a risk for Mexico. (Source: Reforma and El Universal; 09/10/2004)

SECRETARY USABIAGA INDICTED

Federal deputies from the political party PRD, accused Secretary of Agriculture Javier Usabiaga and his International Affairs Coordinator Victor Villalobos of violating the Mexican Constitution and the Cartagena Protocol by illegally signing an agreement with the United States and Canada to allow the import into Mexico of a significant amount of transgenic products, mainly transgenic corn. Both Mexican officials, Usabiaga and Villalobos, were accused under the charge of undue use of faculties and functions. The Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) has stated that there was no wrong doing on the part of the officials. (Source: El Universal, Reforma, Excelsior; 09/12/2004)

MEXICO CHINA TO BOOST RECIPROCAL CREDIT

According to a local newspaper, China and Mexico have signed a pact to boost trade by establishing reciprocal lines of credit for purchases of capital goods and equipment. The agreement was signed by the president of the Export-Import Bank of China, Yang Zilin, and the director general of Mexico's Banco Nacional de Comercio Exterior, or Bancomext, Hector Reyes. According to a statement from Bancomext, the pact's strongpoint is the creation of mutual credit lines aimed at boosting exports of capital goods, equipment, natural resources and services. Although China represents strong competition for Mexican products abroad, it constitutes a potential market with great opportunities for Mexican exports. (Source: El Universal; 09/14/04)

JAPAN MEXICO TRADE ACCORD TO BE SIGNED THIS WEEK

According to a local newspaper, officials confirmed Monday that Mexico and Japan will sign a free-trade accord during this week's visit here by Japanese Prime Minister Junichiro Koizumi. The signing of Friday's trade pact will strengthen the strategic alliance between the two countries and will diversify their commercial relationships. Negotiations were concluded March 10 after several months of difficult discussions in which the main obstacle was Japan's unwillingness to offer sufficient concessions on Mexican farm exports, especially those involving meat and oranges. The accord will be signed almost a year after Fox's official visit to Tokyo, where the pact was initially expected to be signed. The government hopes the agreement will increase exports to Japan by almost 10 percent. (Source: El Universal; 09/14/04)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX4110	Weekly Highlights & Hot Bites, Issue #35	9/10/04
MX4111	Status on Avian Influenza – Update #5	9/15/04

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