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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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TRANSGENIC CORN, ALTERNATIVE FOR MEXICO: MONSANTO

According to Manuel Oyervides Garcia, Monsanto Director of Research for Latin America, if Mexico begins planting genetically modified corn in the next crop cycle in the states of Sonora, Sinaloa and Tamaulipas, the country could be self-sufficient in that grain by 2010. With a career in plant genetics spanning 34 years, the Monsanto executive was one of the leaders of the "Sinaloa Miracle", where his research contributed to a substantial increase corn production in that state. Today Sinaloa is considered to be "Mexico's granary" and a key to Mexico's ability to feed itself. (Source Milenio Diario; 04/27/2007)

TORTILLA PRICE AGREEMENT EXTENDED

The government extended an agreement with food manufacturers and retailers to cap corn tortilla prices in a bid to keep inflation in check. The new agreement maintains a voluntary cap of 8.50 pesos (U.S. \$0.78) a kilogram until August 15, Economy Secretary Eduardo Sojo said Wednesday April 25, in Mexico City. The previous agreement was scheduled to end April 30. This past January President Felipe Calderon convinced retailers, including Wal-Mart de Mexico, and tortilla makers such as Grupo Bimbo to cap tortillas prices after rising corn prices caused food prices to surge. Government stores agreed to cap the price of corn and corn flour, and the government increased the amount of corn that could be imported duty-free. "The extension of the pact is a positive sign, but it does not eliminate inflationary pressures," said Alfredo Coutiño, senior Latin American economist at Moody's Economy.com in a telephone interview from West Chester, Pennsylvania. Agriculture Secretary Alberto Cardenas said the agreement had succeeded in stabilizing the cost of Mexico's dietary staple despite an 80 percent increase in international corn prices. He said that with the extension of the agreement the price of this staple should not increase for the rest of the year. A record white corn crop in the state of Sinaloa allowed the agreement to be extended and improved, Sojo said. Later on, Sojo expressed concern about the country's lack of competitiveness, but said the government is seeking reforms to solve the problem. An independent report by the Mexican Institute for Competitiveness, released Tuesday, said Mexico has dropped two places over the past two years to 35th out of 45 countries in terms of its attractiveness to investors. "Despite the advances Mexico has registered in recent years, it is clear that it has evolved at a slower pace than many of our competitors," Sojo said at an event hosted by the institute. Sojo said the Calderon administration is promoting tax changes and other reforms to solve the problem. The economy grew at its fastest rate in six years in 2006, with gross domestic product up 4.8 percent, but there is a long-held consensus that the country's growth potential could be

improved through structural reforms and by opening major sectors to greater competition. José Angel Gurría, secretary general of the Organization for Economic Cooperation Development, said in a video address that Mexico should be growing faster, blaming "bottlenecks" that impede economic growth. (Source: Reforma, El Economista, El Financiero, El Universal; 04/26/2007)

TRANSGENIC AGREEMENT SIGNED BY GROWERS

Concerned that Mexico has yet to join competing nations in the development of genetically modified food crops, the nation's corn growers signed an agreement with agribusiness giant Monsanto Wednesday to buy and plant genetically altered seeds. The National Confederation of Corn Producers (CNPAMM), which is affiliated with the umbrella agriculture association National Campesino Confederation (CNC) had been in negotiations with Monsanto for months to come up with a plan to convert some of the nation's corn crops to "technically improved" seeds in order to resist plague and increase production. At a signing ceremony Wednesday, the corn growers presented the agreement as a plan to protect Mexico's indigenous corn varieties, as well as to introduce transgenic seeding. Nevertheless, the accord is certain to run into opposition from environmental groups, which have resisted the introduction of genetically modified seeds partly on the grounds that they would threaten native corn. "Our position is that biotechnology must be introduced, while respecting Mexican corn," said CNC president Cruz Lopez. "We are satisfied that seed companies such as Monsanto are cooperating with the protection of Mexico's native corn." Cruz said Mexican corn growers have suffered the consequences of being "frozen out" of transgenic corn technology. He called opponents "confused" and "dogmatic." Under the plan, seeds that have been genetically modified will be tested experimentally for yield and safety beginning this year. In phase two, next year, selected seeds will be put through a growing cycle but will not be sold commercially. If all goes well, commercial corn grown from transgenic seeds will be planted by 2009 at the earliest. Lopez served as a federal legislator for the Institutional Revolutionary Party (PRI) from 2003-2006, when Congress passed the Biosecurity and Genetically Improved Organism law, which he says provides the legal basis for the transgenic corn program. (Source: El Financiero & El Universal; 04/19/2007)]

FOOD & BEVERAGES PRICES INCREASED DUE TO SURGE IN CORN PRICES

Grupo HERDEZ, a Mexican food and beverages processing company, has increased its prices by four percent as a result of the surge in world corn prices, stated HERDEZ Financial Planning Director Gerardo Canavati. Since the beginning of 2007, HERDEZ has increased the price of its products because higher corn and soybean prices have affected production costs. Canavati reported that the elevated price of sugar has also impacted costs. However, according to Canavati, the company has absorbed a large percentage of increased production costs. "Herdez is a large raw material consumer and the pressure from input prices has been substantial. However, the company has made a commitment to absorb the majority of the impact. Despite this, we have recently been forced to increase consumer prices by the aforementioned percentage," Canavati ended. (Source: Reforma; 04/26/2007)

BACHOCO AND MASECA'S COSTS UNDER PRESSURE

A recent analysis by BANAMEX reported that agribusiness firms MASECA and Bachoco have been significantly affected by the recent surge in corn prices, which started in the fall of 2006. Bachoco, which uses corn, sorghum and soybean meal to feed their flocks, could be

forced to increase their prices by about 8 percent. "Bachoco has greater operating margins compared to other Mexican poultry companies. They also have acceptable control of the distribution and are vertically integrated," the report concludes. (Source: Excelsior; 04/25/2007)

PRESIDENT CALDERON ANNOUNCES NATIONAL SUGAR CANE PROGRAM

On April 24 Mexican President Felipe Calderon announced the National Sugar Cane Agroindustry Program (Programa Nacional de la Agroindustria de la Caña de Azúcar-PRONAC). The program outlines a plan to build a more competitive and sustainable sugar sector in order to face the opening of the North American market in 2008. According to the local press, PRONAC will strengthen commercial activity, increase cane production by at least 2.3 percent, and sugar production by 3.3 percent annually, convert about 76,000 rain fed hectares into irrigated areas, and increase investment and employment. The general goal of this program is that by 2012 Mexico will produce 5.4 million tons of sugar (5.7 MMT raw value) for domestic consumption, and an additional 840,000 tons (890,000 MT raw value) for export purposes. Furthermore, the program aims to produce 60.7 million tons of cane, up from the 47.3 MMT currently produced, including 6.5 million tons for ethanol production. Additionally, PRONAC calls for the participation in bioenergy production, stating that an increase in production will be used to produce 7,840 barrels of ethanol per day. Producers and industry leaders will get together to discuss a differential payment system for producing sugar and ethanol. Close to \$91 million dollars will be destined to PRONAC, which will include a market information system. This program is the result of a consensus between all interested parties. (Source: Excelsior, Jornada, Financiero, Reforma, 04/25/07)

GOVERNMENT COULD ISSUE UNILATERAL SUGAR IMPORT PERMITS

Due to sugar price pressures, the Secretariat of Economy (SE) is considering the possibility of issuing import permits to the chocolate and sweets exporting industry. SE affirms that there is a delay of sugar production of about 347,000 tons, and therefore is considering the issuance of a unilateral TRQ of 124,250 MT. This measure is intended to prevent rising sugar prices during the second semester of 2007. However, Juan Cortina, President of the Sugar Chamber, insists that sugar domestic production of about 5.2 MMT (5.5 raw value) for MY 2006/07 is enough to guarantee supply of an expected local demand of about 4.9 MMT (5.19 Raw value) and therefore the sugar import TRQ that SE plans to authorize is not justified. (Source: Financiero, 04/23/07)

BIODIESEL PLANT WILL BEGIN OPERATIONS IN AUGUST

Pro Palma, a Mexican vegetable oil processor and distributor, announced that its first biodiesel plant, located in the state of Michoacan, will begin operations next August. Jorge Terrones, Pro Palma's manager, stated that the yearly production capacity will initially be about 8,000 MT, and that they will target auto and truck manufacturers, the transportation sector, and Petroleos Mexicanos (PEMEX). Terrones commented that DaimlerChrysler invested in the processing plant, which occupies 5,000 sq. meters of surface area and will generate almost a thousand jobs, "not including those jobs created for agricultural workers in the jathropa (plant used as raw material for biodiesel) plantations." (EL FINANCIERO, APR. 16)

MEXICO TO CONSIDER "CHEAPER" SOURCES OF ETHANOL

The Mario Molina Research Center recently conducted a series of studies analyzing different "energy crop" options to be used as raw materials for ethanol production, instead of traditional crops like corn and sugar cane. Results indicate that wheat and sorghum are the cheapest options, having a cost of 0.87 pesos (U.S. \$0.08) and 1.35 pesos (U.S. \$0.12) per liter of ethanol produced, respectively. Sugar beets, sunflower, soybeans and yucca plants are also considered, but costs might be higher when considering the larger acreage required and the need for larger amounts of water, plus the infrastructure required in Mexico to process those crops. For example, if Mexico were to introduce a mandatory 10% ethanol content in gasoline, depending on the crop used as input for ethanol production, it would require 2,770 additional hectares of sorghum, 1,600 hectares of yucca plants and less than 1,000 hectares of sugar beet, sugar cane or corn. Still, analysts believe the GOM will use this information to establish a bio-fuel strategy in the short term. The study includes information on producing biodiesel from different vegetables and oilseeds. (EXCELSIOR, APR. 21)

MEXICAN TRUCK DRIVERS PROTEST AT LAREDO-NUEVO LAREDO BORDER AREA

On April 20, Mexican truck drivers demonstrated against the implementation of the U.S. Customs electronic truck manifest (ACE e-Manifest). According to ATO Monterrey, Mexican truck drivers began their protest on the Mexican side, blocking International Bridge III, affecting only the export lanes. Eventually, Mexican truck drivers also protested on the U.S. side, thus affecting exports from the United States into Mexico. The demonstration began at 3:00 PM and finished three hours later when an agreement was settled between truck drivers, Mexico's Customs Administration, the Nuevo Laredo Association of Customs Agents & Brokers, and CANACINTRA. The economic loss generated by the demonstration has not been yet quantified. (ATO Monterrey, APR. 23)

NEW OPPORTUNITIES THANKS TO AGRICULTURE: AGSEC CARDENAS

Alberto Cardenas, Mexico's Secretary of Agriculture, believes that trade integration in North America will set off growth and development in the rural sector and will enhance competitiveness in agriculture. Just a few months before NAFTA's full implementation, Secretary Cardenas believes biotechnology and innovation will be key elements in developing Mexico's agricultural industries. He expressed confidence that NAFTA will integrate the three countries and will reduce the gaps between them, including the productivity and income gap. He also insisted on the need to harmonize sanitary and food safety standards and practices between Mexico, the United States and Canada, as well as the elimination of trade distorting technical obstacles. According to information from the GOM, agricultural industries grew at a rate of 3%, while agricultural production registered a growth rate of 2%, an indication that the first sector drives the latter and forces it to improve productivity. (EL FINANCIERO, APR. 23)

STATE OF QUERETARO SEEKS TO BUILD BIODIESEL PLANT

Governor Francisco Garrido and State Agricultural Secretary Hector Lugo, from the Mexican state of Queretaro, visited Seattle-based firm Capital Access in order to pitch investors on a project to set up a biodiesel plant. The one-billion dollar project is considered by Secretary Lugo as an "ambitious project" that will boost economic activity in Queretaro. The plan is for

the plant to use jathropa seeds as raw material. Several studies are currently under way to determine the crop acreage and the additional infrastructure required to satisfy the demand of inputs the biodiesel plant will have. (EL SOL DE MEXICO, APR. 23)

U.S. STATE AGRICULTURAL SECRETARIES AVOID "SENSITIVE" TOPICS DURING TRI-NATIONAL MEETING

U.S. State Secretaries of Agriculture attending the XVII Tri-National Agricultural Accord in Monterrey last week, avoided discussions on "sensitive" topics, like antidumping measures and trade-distorting subsidies, despite the persistence of their Mexican and Canadian counterparts. The U.S. delegation explained their belief that these topics are to be discussed in bi-national forums, and in the presence of international organizations. Besides this difference of positions, participants in the Accord were confident and satisfied about the results of the meetings, especially in the areas of food safety and plant/animal health. The next Tri-National Agricultural Accord meeting will take place in Boise, Idaho, in 2008. (REFORMA, APR. 24)

CRANBERRY JUICE "FLOWS" INTO MEXICO

U.S. cranberry growers will send their product to Mexico, hoping for \$45 million in sales within the next 5 years. Mexico is the main fruit juice consumer in Latin America, with a yearly average of 15 liters per capita. Hence the 650 cranberry growers who own juice-company Ocean Spray have decided to move into the Mexican market. Their strategy includes importing the juice concentrate from the United States, and then mixing it with ingredients from Mexico, and then through a joint venture with Mexican companies Herdez (distribution), Ultrafresca (production) and Jugos del Valle (packaging), make cranberry juice available throughout the country. (REFORMA, APR. 26)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

MX7028	Oilseeds and Products Annual	4/26/07
MX7027	Weekly Highlights and Hot Bites #12	4/13/07
MX7026	Mexico Country Strategy	4/7/07
MX7025	Weekly Highlights and Hot Bites #11	3/30/07
MX7024	Grain and Feed Annual	3/30/07
MX7023	Weekly Highlights and Hot Bites #10	3/23/07

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