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Mexico

Agricultural Situation

Trucking Retaliation Increases Tariffs on U.S. Apricots, Cherries, Grapes, Pears and Strawberries 2009

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Report Highlights:

On March 18, 2009, the Secretariat of Economy (SE) published an announcement in the *Diario Oficial* (Federal Register) modifying the import tariffs of 36 U.S. agricultural products. These modified tariffs are in retaliation over the dissolution of the U.S.-Mexico Cross-Border Trucking Demonstration Project. (See MX9010.) Among the various agricultural products, the announcement stated that as of March 19, 2009, the following U.S. imports would be subject to duties: apricots, cherries, grapes, pears and strawberries. In total, the United States exported approximately \$170 million of the above products to Mexico in 2008.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Mexico City [MX1]
[MX]

MEXICO TRUCKING RETALIATION LIST - IMPORTS FROM THE UNITED STATES			
U.S. DOLLARS			
HS Code	Description	2008	New Tariff
0806.10.01	Grapes, fresh	62,136,444	45%
0808.20.01	Pears	70,685,943	20%
0809.10.01	Apricots, fresh	3,641,643	20%
0809.20.01	Cherries, fresh	3,740,854	20%
0810.10.01	Strawberries, fresh	29,964,695	20%
TOTAL		170,169,580	

Source: SAGARPA/SIAP, Secretariat of Agriculture, Rural Development, Fisheries and Food.
Agro-Food and Fisheries Information Service

Post's Analysis: These new duties will have a significant affect on U.S. exports, especially the 45 percent that has been placed on grapes. Most of the imported fruit from the United States that will be affected originate from the states of California, Washington and Oregon with an approximate value of \$170 million in 2008. Furthermore, according to traders, a decrease of imported fruit was already expected due to the depreciation of the Mexican peso. However, the United States is expected to remain Mexico's main supplier of many of these products.

Grapes, fresh: U.S. table grapes can only be imported from California due to Mexico's phytosanitary restrictions on table grapes from other U.S. states. Currently, the United States is not shipping to Mexico, and the 2009 California grape season does not start until May. In the 2008 season (May through January) Mexico was the table grape industry's second largest export market and represented 15 percent of total export volume. Total exports last year to Mexico reached a record high in terms of volume and value.

With an increase in the tariff from zero to 45 percent, the export volume is expected to decrease significantly. Not only does Mexico grow grapes that compete in the early part of California's season, Mexico also imports large volumes from Chile. Chile's grape production is primarily counter-seasonal but they are also available during California's early and late season periods. According to the U.S. industry, with such a huge increase in the tariff, we would expect Mexican importers and retailers to handle Chilean grapes rather than California grapes whenever they could, effectively reducing the California table grape industry's shipping period by approximately one-third. Importers may also import Chilean grapes and hold them in cold storage for longer rather than importing California grapes which could reduce California's volume by half. If the volume dropped by one-third the industry would lose approximately \$20 million and if by one-half over \$30 million.

Pears: Most pear imports originate in California, Washington and Oregon. U.S. Bartlett pears are usually imported during July, August, and September, while U.S. Anjou pears are imported towards the end of September and October. As of now, U.S. pears meet about 80 percent of the Mexican import needs and Argentina meets the other 20 percent. Argentina will now have a better opportunity to increase business as their products are usually priced lower than U.S. pears. If retaliations last for an extended period of time, U.S. pear exports would drop significantly and the final price of U.S. product would ultimately be forced on the consumer. The industry anticipates a 30 percent decrease in U.S. pear exports to Mexico.

Apricots, fresh: Apricots are imported from California and Washington from approximately May to September. As with the rest of the fruit products, apricot imports are also expected

to decrease due to the new tax and the adverse exchange rate. Chile exports very little to Mexico.

Cherries, fresh: U.S. cherry exports supply the Mexican market from May to June (California cherries) and June to August (other northwestern states). The United States supplies nearly 85 percent of cherries exported to Mexico while Chile supplies the other 15 percent. Since cherries are already an expensive product in the Mexican market, a decrease in demand is expected by traders. The additional 20 percent duty is expected to allow Chile to gain a significant market share. In the long term, an expected loss in market share, could give Chile control of the Mexican market even if retaliations are eventually lifted.

Strawberries, fresh: Imports of fresh U.S. strawberries supply the Mexican market from May to November. Traders believe that approximately 10 percent of the market share would be lost for the early season while demand would decrease at least 30 percent during the late season. Even though the United States has the import market share in Mexico, the additional 20 percent duty would significantly increase the price to consumers. Traders anticipate a 20 percent decrease in U.S. strawberry exports with losses of nearly \$6.5 million.

Background: On March 18, 2009, the Secretariat of Economy (SE) published an announcement in the *Diario Oficial* (Federal Register) modifying the import tariffs of 36 U.S. agricultural products. These modified tariffs, allowed under NAFTA dispute settlement rules, are in retaliation over the dissolution of the U.S.-Mexico Cross-Border Trucking Demonstration Project. (See MX9010). The Mexico Cross-Border Trucking Demonstration Project was an accommodation reached with Mexico after years of dispute regarding the delay to implement the NAFTA trucking obligations. It was set up in 2007 as a step towards implementation of the NAFTA trucking provision. It allowed up to 100 trucking firms from Mexico to transport international cargo beyond the commercial zones along the U.S.-Mexico border and up to 100 U.S. trucking firms to transport international cargo into Mexico. Bus companies and hazardous material carriers were excluded. The Trucking Pilot Program began on September 6, 2007, and was originally designed to run for one year. By an exchange of letters between the U.S. and Mexican Transportation Secretaries on August 4, 2008, the Trucking Pilot Program was extended up to an additional two years to ensure that it could produce sufficient data to evaluate its safety impact. In 2007, Mexico-domiciled motor carriers crossed into the U.S. approximately 4.8 million times, transporting an estimated \$215 billion of freight.