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

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.

NEW LEGISLATION AIMS TO BOLSTER MEXICAN COFFEE TRADE

The Special Commission on Coffee within the Lower House of the Mexican Congress (Representatives) presented legislation on January 18 designed to bolster Mexican coffee exports and set reference prices based upon international prices, transportation costs and tariffs. The legislation also seeks to boost the level of financing for technology transfer, price stabilization and marketing assistance to domestic producers. Information from the Secretary de Economy shows that Mexican coffee exports have fallen 43 percent in the last ten years from US$415 million in 1994 to US$236 million in 2004. Jorge Utrilla, President of the Special Commission on Coffee, revealed that the new legislation will help expand exports and allow Mexican producers to penetrate new market niches.
(Source: *Reforma*, 1/17/05)

REACTIONS TO THE REVOCATION OF THE SUGARCANE DECREE

Following the government's announcement revoking the Decree containing the legal framework regulating trade relations between mill owners, sugarcane producers and the system of payment for sugarcane – among other issues related to the sugar production agroindustry – most local newspapers carried articles in favor and against the decision. According to some, the government's decision will be good news to consumers and industries relying on sugar as a main commodity. Others argue that this decision is a setback for political organizations that for years have benefited from the special treatment given to sugar. Consumers have been paying increasing prices for sugar and the chocolate and sweets industries have had difficulty competing with their international counterparts because domestic sugar has been high priced. The private sugar industry believes that this measure will encourage the production of higher quality sugar, encouraging producers to become more competitive in preparation for the opening of the market in 2008. The private industry is forecasting that sugar prices will decrease about 10 percent for the second semester of 2005. The social sector, however, views this action as a way to benefit large sugar-reliant companies, as opposed to the producers, by setting lower sugar prices. The leaders of different farmer associations are calling for urgent meetings with senators, legislators and governors to analyze the economic and social costs of the canceling of the Decree. Some legislators from the social sector have indicated they would promote a legal initiative that was underway in the Lower Chamber to defend the interests of the sugarcane growers. (Source: Financiero 01/17, 18/05, Reforma, 01/15,17,18/05 La Jornada, 01/18/05)

NAFTA INTENSIFIES MEXICO'S ECONOMIC PROBLEMS: NADBANK

Raul Rodriguez Barocio, General Director of the North America Development Bank (NADBANK), stated that 11 years after the North American Free Trade Agreement came into effect, the economic inequality continues between Mexico and its trade partners, Canada and United States. In addition, he said the differences between the north and the south of Mexico have deepened. In spite of that, the trilateral agreement has been very successful due to the increased trade volume among the three countries, even though the economic asymmetries among them persist. (Source: El Financiero; 01/14/2005)

STRONG DRY BEAN CROP IN 2004 DUE TO RAINFALL, NOT THE GOVERNMENT, ACCORDING TO PRODUCERS

Abraham Montes, the leader of the National Dry Bean Growers Union, attributed the successful production by 570,000 dry bean producer families – enough to meet domestic consumption of 1.1 million metric tons - to the rainfall experienced in 2004 rather than assistance from the Mexican Government. Montes also said dry bean growers have been adversely affected not only by the North American Free Trade Agreement, which established an import tariff rate quota that has been growing each year (and will expire in 2008 when the import duty will be zero), but also by the smuggling of 200,000 metric tons of beans into Mexico. Montes added that the authorities of Agriculture, Treasury and Economy established that the smuggled beans are coming from the United States and Canada. (Source: La Jornada; 01/15/2005)

70 PERCENT OF THE AGRICULTURAL PRODUCTS CONSUMED IN MEXICO ARE OF LOW QUALITY: CHAPINGO UNIVERSITY

According to Sergio Barrales-Dominguez, Dean of the Chapingo Autonomous University, at least 70 percent of the agricultural products that Mexico consumes are imported and of low quality, especially corn, dry beans, wheat, soybeans and meat. Regarding the dry bean consumption, he indicated that Mexico is self-sufficient in the production of this food. Barrales-Dominguez added that "those who control the domestic market authorize the importation of dry beans, which in most cases come from the United States… where the dry beans that are marketed are not from the current annual crop but from storage, despite the fact that research has shown that the protein in dry beans decreases by one third after the second year of storage." (Source: La Jornada; 01/14/2005)

MONEY SENT FROM U.S. BOOSTS HOME ECONOMY

The Governor of the Bank of Mexico, Guillermo Ortiz, noted that the income being sent home to Mexico from abroad has been increasing, though some of the increase may be due to better accounting of transactions and more formal routes of sending or wiring money. Consumers and investors will drive the economy this year, though a global slowdown will probably keep the country from achieving last year's growth rate, stated Ortiz on January 13, 2005. While the nation's exports are expected to decline due to falling oil prices, private consumption and investment should pick up much of the slack. Consumers have also received a big boost from money sent home from abroad, especially the United States. Ortiz estimated that such flows into Mexico reached U.S. $17 billion in 2004, up from U.S. $13.3 billion the previous year. Remittances have overtaken tourism as the second largest source of income for the country, behind crude oil exports. Meanwhile, growth in private investment is poised to increase from an estimated 7 or 8 percent in 2004 to 10 percent this year. The nation's economy likely grew about 4.1 percent in 2004, said Ortiz, citing the Central Bank's December survey of private economists. The economy is expected to expand between 3.5 and 4 percent this year. (Source: El Universal; 01/14/2005)

MEXICAN BEEF PRODUCERS LOOKING TO STOP CANADIAN BEEF IMPORTS

According to a local newspaper, the Mexican Association of Feedlots (AMEG), if necessary, will meet with officials from the Secretariat of Agriculture (SAGARPA) to request the stoppage of beef imports from Canada due to the finding of a third case of BSE. AMEG is requesting the GOM to avoid, at all costs, exposing the national herd to the risk of BSE contamination. AMEG is concerned that trade with Canada is still a risk because it may affect Mexico's beef exports to Japan since Mexico is the only NAFTA country currently exporting to the Asian country. (Source: Reforma, 01/13/05)

WAL-MART RESULTS FOR LAST QUARTER 2004

Wal-Mart of México saw a 15.9 percent sales increase for the last quarter of 2004 over the same period in 2003. However, sales in December 2004 were only 7.8 percent higher than December of the previous year. Wal-Mart currently operates 694 commercial enterprises in Mexico of which 284 are restaurants, 162 are Bodegas Aurrerá and 89 are Wal-Mart Supercenters. Overall sales space increased 11 percent in 2004, with restaurant seats increasing 6 percent. In February, Mr. Solórzano Morales will take the position of executive president and general director for Wal-Mart de Mexico, replacing Eduardo Castro Wright who will be the new vice president and director general of operations for Wal-Mart in the United States. *(El Financiero*, 1/11/05)

WAL-MART SALES INCREASE IN DECEMBER

Wal-Mart sales for December totaled US $1.6 billion, allowing the company to recapture market growth after a 0.6 percent decrease in November. The 2.4 percent increase in store sales reported by Wal-Mart of Mexico (Walmex) in December of 2004 was slightly over the 1.8 percent that was forecast by analysts. Joaquin Ley, analyst of Santander, attributes the increase in sales to pricing themes and better execution. Walmex is a chain of Wal-Mart Inc. International Operations, with 694 business units, of which 360 are self-service stores, 50 department stores, and 284 restaurants, employing over 100 thousand persons. Their businesses include Wal-Mart Supercenter, Sam's Club, Suburbia, Vips, Italian restaurants, Ragazzi, and others. (Source: *Reforma*, 1/7/05)

MEXICO'S NORTHERN STATES RISE IN ECONOMIC IMPORTANCE

Statistics reveal a northward migration of Mexico's GDP, reflecting changes to the economy of Northern Mexico. Nuevo Leon, which is now the second most economically powerful region, reflects this northward shift. According to data from Mexico's National Institute for Statistics, Geography, and Computer Science (INEGI), Nuevo Leon's economy was the only one of the top three State economies to increase its share of national GDP between 1993-2002, the others being Mexico City and Jalisco. All six border-states increased their share of national GDP, with the top three growth states being Coahuila (a 17.2 percent increase), Baja California (a 14.3% increase), and Chihuahua (a 12.8 percent increase). Two parallel trends contributed to the northward migration of GDP: the above average annual GDP growth rate for the six border states and the increase in the manufacturing sector's prominence within these states, offering many new economic opportunities. (Source: UNCLAS Monterrey 00038, 1/13/05)

SECRETARY OF AGRICULTURE FORESEES CHANGE IN MEXICAN AGRICULTURE

The Secretary of Agriculture, Javier Usabiaga, considers it necessary to group together producers and create economically viable production units in order to decrease the number of people engaged in this primary activity within ten years. "Of the 6 million productive units that there are in the field, only 3 percent contribute 80 percent of the internal agricultural production. Seventy percent of the revenues from the rural areas are not generated by agricultural activities," he said. In contrast, "In the U.S., 8.75 percent provide 75 percent of the value of production in this sector." Usabiaga also rejected talk of any revisions to the corn and bean sections of the agricultural chapter of NAFTA, calling it a fallacy. (Source: *Reforma*, 1/11/05)

MEXICO'S CATTLEMEN MAY REQUEST THE STOPPAGE OF CANADIAN BEEF IMPORTS

According to a local newspaper, Mexico's cattlemen could request the total closure of Mexico's borders to beef meat from Canada, unless the Canadian health authorities guarantee the wholesomeness of their shipments.
The president of the Mexican Association of Livestock Feedlots (AMEG), Juan Barrio, indicated that the outbreak of three cases of BSE in Canada since 2003, places Mexico in a situation of alert, due to the risks of having this disease invade Mexico and contaminate the national herd.
AMEG is requesting meetings with the Canadian health authorities to receive assurances that their so-called zoning control offers sufficient guarantees and that it is efficient enough to impede the exportation of risk materials due to BSE. (Source: El Financiero, 01/20/05)

THE LEGAL FRAMEWORK FOR THE SUGAR AGROINDUSTRY TO BE REWRITTEN

On January 14, 2005, the Secretariat of Agriculture (SAGARPA) announced in the *Diario Oficial* (Federal Register) the revocation, by President Fox, of the decree defining the legal framework that regulates, among other things, relations between sugar mill owners and sugarcane producers and the system of payment for sugarcane. This decree has been in force since May 31, 1991, and was modified on July 27, 1993. The announcement calls for SAGARPA to convene all the pertinent parties of the sugar agroindustry in order to establish a National Sugarcane Committee, as mandated by the Law of Rural Sustainable Development. The newly formed national committee will have to propose a new decree by September 30, 2005. In the interim, the rules and regulations under the 1991 decree will still apply. Moreover, SAGARPA has 60 days to issue an agreement establishing a permanent dispute resolution board for issues arising in the sugar agroindustry. In the interim, rules and regulations from the 1991 decree and the 1993 modification will be applied as needed. (Source: Diario Oficial, 01/14/2005)

IN SEARCH OF A STRENGTHENED NAFTA

Secretary of State-Designate Condoleezza Rice declared that the joint collaboration with Mexico and Canada to strengthen the NAFTA agreement and increase its competitive ability against other commercial blocks, like the European Union, is a sensitive issue for her country. It is expected that Mexican President Vicente Fox and Canadian Prime Minister Paul Martin would meet President Bush in the short term to discuss "the appropriate way to re-launch the agreement". (Source: La Jornada; 01/20/2005)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

MX5003	Weekly Highlights and Hot Bites, Issue #1	01/13/05
MX5004	Continuance of Compensatory Duties on Beef Imports to be Determined	01/18/05
MX5005	Legal Framework for Sugar Agroindustry to be Rewritten	1/21/05
MX5006	Ciudad Reynosa Reopens As A Border Crossing For Apples	1/21/05

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