USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 5/12/2004

GAIN Report Number: MX4059

Mexico

Agricultural Situation

Weekly Highlights & Hot Bites, Issue #18

2004

Approved by:
William L. Brant
U.S. Embassy

Prepared by:
Benjamin Juarez and Gabriel Hernandez

Report Highlights:
*REDUCE TRADE BARRIERS, PRIORITY WITH MEXICO: USDA
*SECRETARY CANALES GOES TO THE U.S. TO IMPROVE BILATERAL TRADE
*MEXICO WILL NOT ASK FOR A NAFTA RENEGOTIATION
*IMPORTS COVER 40 PERCENT OF MEXICO'S SUPPLY OF GRAINS & OILSEEDS
*USABIAGA: LONG WAY TO GO TO REVERSE THE EMERGENCY SITUATION IN AGRICULTURE
*GOVERNMENT AND PEASANTS DIFFER ABOUT ADVANCES OF THE NATIONAL AGREEMENT ON AGRICULTURE
*FARMER ORGANIZATION IS DISAPPOINTED WITH SAGARPA'S "SUCCESSFUL" VISION
*TOTAL NAFTA OPENING IN 2008
*U.S. CORN IS CRACKED PRIOR TO IMPORTATION
*THE WTO SETS UP A PRECEDENT TO ELIMINATE AGRICULTURAL SUBSIDIES
*GRUMA POSTS FIVEFOLD INCREASE IN PROFITS
*PESO CONTINUES ON ITS DECLINE
*TRADE WITH EU SET TO GROW

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.

DISCLAIMER: Any press summary contained herein does NOT reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

REDUCE TRADE BARRIERS, PRIORITY WITH MEXICO: USDA

According to Lloyd Day, USDA/FAS Special Assistant to the Administrator, the U.S. Government has the same vision as that of the GOM regarding the non-renegotiation of NAFTA's Agricultural Chapter. He stated that the bilateral relationship between Mexico and the United States is very good. Day pointed out that the current priority of the relationship between both countries on agricultural issues is to harmonize sanitary measures and to reduce, as far as is possible, trade barriers. (Source: *El Financiero*, 4/30/04)

SECRETARY CANALES GOES TO THE U.S. TO IMPROVE BILATERAL TRADE

Fernando Canales, Secretary of Economy, traveled to Texas with the intention of negotiating better security mechanisms and improve the trade of goods within the 10th anniversary of the NAFTA signing. Meanwhile, his advisor's coordinator, Alejandro Diek, assures that the Mexico-United States relationship represents an advantage to develop trade opportunities. (Source: *La Jornada*, 5/6/04)

MEXICO WILL NOT ASK FOR A NAFTA RENEGOTIATION

Even though the National Agreement on Agriculture (NAA) established that the Federal Executive Branch must initiate official consultations with the governments of the United States and Canada, the Government of Mexico (GOM) will not ask for a NAFTA renegotiation. The GOM will not modify its tariff rate reduction for corn and dry beans, that will be duty free on January 2008, said Secretary of Economy Fernando Clarion. (Source: *El Economista*, 4/29/04)

IMPORTS COVER 40 PERCENT OF MEXICO'S SUPPLY OF GRAINS AND OILSEEDS

Ricardo Calderon, Director of the Association of Suppliers of Mexico's Agricultural Products (APPAMEX), pointed out that in the last ten years imports of grains and oilseeds almost doubled. These imports grew 93 percent, from 10.65 MMT in 1994 to 20.57 MMT in 2004, while domestic production registered very limited growth. Calderon said that four percent of the domestic supply of corn, wheat, rice, dry beans, soybeans, sesame, knapweed, cotton, barley and sorghum is covered by imported products and the rest for domestic crops. (Source: *El Financiero*, 5/4/04)

USABIAGA: LONG WAY TO GO TO REVERSE THE EMERGENCY SITUATION IN AGRICULTURE

The Mexican Secretary of Agriculture, Javier Usabiaga, pointed out that the realization of the objectives of the National Agreement on Agriculture is not just the responsibility of the GOM but also a task of the legislative branch, farmer organizations and state governments. He also stated that to reverse the emergency situation in the rural sector, there is a long way to go and there needs to be a broader perspective among campesino leaders. Despite the fact that Secretary Usabiaga admitted advances in the agriculture sector would not be realized until rural living conditions had improved, he insisted that the agriculture sector shows the highest growth rates of the economy, three times greater than the whole economy. (Source: *Excelsior*, 4/29/04)

GOVERNMENT AND PEASANTS DIFFER ABOUT ADVANCES OF THE NATIONAL AGREEMENT ON AGRICULTURE

According to local newspapers, the GOM's perception about the advances of the National Agreement on Agriculture (ANC) contrasts thoroughly with the opinion expressed by the agricultural and agrarian organizations. These organizations are disappointed because the Agreement is insufficient to improve food production capacity and to elevate the farmer's level of living. According to Congressman (PRI Party) Rafael Galindo, Coordinator of the Sub-Committee of ANC's tracking in the Lower House, the largest discrepancies are in the ANC's international commitments, such as NAFTA. In addition, farmer groups such as the Agrarian Permanent Congress (CAP) pointed out that the rejection to revise the NAFTA's Agricultural Chapter and the delay to allocated certain supports (such as "Alternative" Procampo), have increased the differences between these groups and the GOM. (Sources: *El Financiero, La Jornada, El Universa,* and *El Economista,* 4/28/04)

FARMER ORGANIZATION IS DISAPPOINTED WITH SAGARPA'S "SUCCESSFUL" VISION

The farmer organization "the Countryside Can't Stand Anymore"(ECNAM) will insist on an immediate renegotiation of NAFTA's provisions on corn and dry beans and to leave these crops out of any future agreement. Also, the ECNAM will ask for a moratorium for the entire NAFTA Agricultural Chapter. It criticized the "successful" governmental vision on the advances of the National Agreement on Agriculture (ANC), which states it has implemented 95 percent of the Agreement. Similarly, other groups such as "El Barzon" and the "Agrarian Permanent Congress" (CAP) pointed out that if NAFTA's chapter is not renegotiated, the ANC does not have any future. Under Secretary of Rural Development, Antonio Ruiz-Garcia, rejected the notion that the ANC seeks to renegotiate NAFTA's Agricultural Chapter. It could be adjusted, he said, but not renegotiated. (Sources: *El Financiero* and *Excelsior*, 4/29/04)

TOTAL NAFTA OPENING IN 2008

Before the total NAFTA opening in 2008, farmers and agricultural manufacturers, in particularly corn growers, face the challenge of investing in infrastructure of grains mobilization, of being integrated and participating actively in the commodity futures exchange trading to assure their prices said Juan Antonio Hinojosa, Advisory Coordinator of the governmental agency Supports and Services to the Agricultural Marketing (ASERCA). He considered that the most appropriate alternative to face these challenges is not through the "target prices" program implemented by the GOM, part of the National Agreement on Agriculture, as it will be unsustainable in the future due to budgetary limitations. (Source: *El Financiero*, 5/7/04)

U.S. CORN IS CRACKED PRIOR TO IMPORTATION

In order to match Mexico's growing consumption of corn, especially for the livestock sector, importers have adopted the strategy of deliberately cracking U.S. corn to import it through a Harmonized Tariff (HT) code that doesn't pay import duties. According to Enrique Tron, President of the Industrialized Corn Chamber, importers pay between US$5-8 per MT to crack corn and import it under the HT's code of cracked corn. He said this happens because when the NAFTA import tariff rate quotas are surpassed, corn importers have to pay a higher duty, but if they import it through a different HT code, i.e., crack corn, the import duty is zero. (Source: *Reforma*, 5/4/04)

THE WTO SETS UP A PRECEDENT TO ELIMINATE AGRICULTURAL SUBSIDIES

Wealthy countries that paid subsidies to the agricultural sector could be challenged at the World Trade Organization (WTO), stated the Brazilian Chancellor, Celso Amorim, after the WTO asked the United States to stop the majority of cotton subsidies to farmers and deemed them illegal. Amorim mentioned this decision would accelerate the cutbacks to agriculture subsidies in developed countries. But if it does not happen, he said, other challenges will increase in other products, such as sugar and corn. (Source: *El Financiero,* 4/30/04)

GRUMA POSTS FIVEFOLD INCREASE IN PROFITS

Gruma, the worldwide leader in tortilla and cornmeal production, posted a net profit of 153.82 billion pesos (US$13.5 million) in the first quarter of 2004, an almost fivefold increase over the same period last year. Gruma racked up 5.79 billion pesos (US$507.95 million) in sales in the first quarter, a 9.04 percent annual increase. During the same period, the firm's operating profits totaled 392.6 billion pesos (US$34.4 million) or 26.7 percent more than in the first quarter of 2003. Founded in 1949, the company controls Gruma Corporation, which operates in the United States and Europe, Gimsa and Molinera in Mexico and Gruma Central America in Costa Rica. (Source: *El Universal*, 4/30/04)

PESO CONTINUES ITS DECLINE

On Thursday, April 29, 2004, the Mexican peso fell to a record low against the dollar on concern that faster inflation in the United States may prompt policy makers to raise interest rates, draining capital from developing nations such as Mexico. The price deflator used to adjust U.S. gross domestic product figures increased by 2.5 percent annual rate in the first quarter, up from 1.5 percent in the fourth quarter, a U.S. Government report showed. At the same time, the U.S. economy, which buys 85 percent of Mexico's exports, expanded less than the median forecast of a 4.2 percent annual rate in the first quarter according to a Bloomberg News survey. "The combination of the two figures is negative for the peso," said Daniel Tenengauzer, a currency strategist at Lehman Brothers, Inc. in New York. "The Mexican Central Bank will have to hike rates a few more times before the peso stabilizes," he added. The peso fell 0.7 percent to 11.47 pesos per dollar, weaker than the previous low of 11.46 reached in trading on November 28, 2003. Its decline that day was the third largest against the dollar of the 16 most traded currencies and pushed its 2004 decline to 1.7 percent, the fifth-best performance. The United States last raised interest rates in May 2000. (Source: *El Universal*, 4/30/04)

TRADE WITH EU SET TO GROW

Mexico will strengthen political and commercial relations with the countries of Eastern Europe under a protocol signed on April 29, 2004. The treaty extends the comprehensive agreement governing relations between the EU and Mexico to the ten incoming members of the trade bloc. "This is a great opportunity for us," said the Mexican Ambassador to the EU, Porfirio Muñoz Ledo, after signing the protocol extending agreements governing relations between the EU and Mexico to the countries that will become members of the union on May 1 (Cyprus, Slovenia, Slovakia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland and the Czech Republic). Under the protocol, Mexico will have access to a potential market of 75 million customers beginning May 1, 2004. (Source: *El Universal*, 4/30/04)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX4054	Weekly Highlights & Hot Bites, Issue #17	4/27/04
MX4055	Citrus Semi-Annual Report	4/30/04
MX4056	BSE Update, Sixth Edition	5/3/04
MX4057	NAFTA Beef Dispute Panel	5/4/04
MX4058	Mexico Announces the Second and Last Auction for Import Permits of Dry Beans	5/12/04

We are available at **http://www.fas-la.com/mexico** or visit our headquarters' home page at **http://www.fas.usda.gov** for a complete selection of FAS' worldwide agricultural reporting.

FAS/MEXICO EMAIL

To reach us at FAS/Mexico City:

AgMexico@usda.gov and/or ATOMexico@usda.gov