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Report Highlights:
Implementation of Animal Health Law Is Extended* Coffee Exports Down*The HFCS Industry in Mexico Gets Hit by a New Tax*Mexican Congress Approves 2002 Budget*New Taxes Ring in the New Year for Mexican Consumers*Economists Say Mexico's New Taxes Fall Short of Broad Reform

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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.

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.

IMPLEMENTATION OF ANIMAL HEALTH LAW IS EXTENDED

On Friday, December 28, 2001, the Government of Mexico finally published the extension for implementing the Animal Health Law two weeks after the extension was passed by Congress. As a result of the extension, implementation of moving all import verification points to the Mexican side of the border has been postponed until June 12, 2002. While this means that several border crossing points have been reopened, unfortunately the ruling did not provide any modification to the law that will resolve this problem once and for all. If modifications are not made soon, it is feared that on June 12th there will be similar problems. The Senate in a declaration about the law, wants to discuss possible modifications that will change the construction requirements currently provided for in the law to make it easier for investors to build verification points. Unfortunately, these discussions are not likely to begin until March or April 2002 when Congress returns from break. (Source: FAS/OAA, Mexico City)

COFFEE EXPORTS DOWN

On Monday, December 17, 2001, *Anacafe*, Guatemala's private growers association, announced that coffee exports from Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Peru dropped 41.4 percent in November from the same month a year ago. Last month's exports totaled 638,885 60-kg. (132.2 lbs) bags. This compares with 1,090,795 60-kg. bags during November 2000. The region's coffee exporting cycle lasts from October 1 to September 30. Accumulated coffee exports from the seven countries during the 2001-02 harvest dropped 35.9 percent to 1,321,383 60-kg bags from 2,060,056 60-kg bags. (Source: *The News*, 12/18/01)

THE HFCS INDUSTRY IN MEXICO GETS HIT BY A NEW TAX

On Tuesday, January 1, 2002, Mexican legislators approved the 2002 budget charging new taxes on soft drinks, telephone services, cigarettes and liquor among other sectors which are expected to boost government revenues by 69 billion pesos (US$7.5 billion). For the companies producing and importing high fructose corn syrup (HFCS), this means bad news. The new legislation will add a 20 percent tax for soda drinks and beverages that use any sweetener other than sugar from cane. This means that any soda drink using HFCS, whatever the percentage of mixture involved in the product, will be taxed 20 percent. This tax makes the use of HFCS almost prohibitive in soda drinks, therefore making the production and import of HFCS unprofitable in Mexico as more than 80 percent of the product is used in beverages. It is not clear yet if fruit juices and diet sodas will also be charged the tax. There have been several contradictions found in the law making it difficult for the government to enforce it. The HFCS industry is studying the law closely and thinks it could be unconstitutional. This new tax could also be seen as a political move to force use of raw sugar from cane, as Mexico has an oversupply. (Source: *The News*, *Reforma*, *Financiero*, 1/02/02)

MEXICAN CONGRESS APPROVES 2002 BUDGET

On Tuesday, January 1, 2002, Mexican legislators approved the 2002 budget consisting of a US$7.5 billion tax package to feed government coffers and reduce dependence on oil exports. The changes, which reduce corporate subsidies and personal income taxes while charging new taxes on soft drinks, telephone services and other sectors, are expected to boost government revenues by 69 billion pesos (US$7.5 billion). The tax package had little resemblance to President Vicente Fox's fiscal reform package presented in April 2001. Legislators scrapped Fox's controversial proposal to tax food and medicine, which met widespread public opposition and was seen as a blow to the poor. Authorities had been forced earlier this month to reduce estimated budget revenues by 20 billion pesos (US$2 billion) because of declining global oil prices. Authorities cut the 2002 oil price assumption to US$15.50 per barrel from US$17.00 per barrel. Senators agreed with Fox in keeping the federal budget deficit at 0.65 percent of GDP in 2002. But Mexico's complex tax code, relatively low rates of tax collection, and over-reliance on oil, which accounts for about one-third of the federal revenues, make that task more difficult. The government has argued that by lowering income taxes and charging the same rate to both companies and individuals, it will reduce tax evasion. (Source: *El Financiero*, *Reforma*, 1/02/02)

NEW TAXES RING IN THE NEW YEAR FOR MEXICAN CONSUMERS

Mexicans greeted the New Year on Tuesday, January 1, 2002, to find that new taxes on alcoholic and soft drinks, tobacco, and cell phone usage had been approved in the closing hours of 2001 by legislators. Though controversial and unwelcomed, the new taxes allow for the raising of revenue that would spare the government of President Vicente Fox from pushing through a series of even more unpopular changes in the tax structure. The alternative would have been making the 15 percent value-added (sales) tax (VAT) applicable to items that are currently granted an exemption, including medicine, food, books and school tuition payments. The new taxes were part of a budget restructuring plan presented by the Fox administration aimed at reducing Mexico's dependence on oil revenues that has been tied up in the congress since last April. After eight months of bitter debate and mutual recrimination between Fox and the opposition-controlled legislature, the packet of reforms, which is expected to bring in US$158.6 million in new revenue, was approved at the last minute on Monday night, December 31, 2001. Critics say the 10 percent surcharge on mobile telephones will affect 17 million cell phone owners and torpedo telecom operators' plans for major investment in infrastructure that would have created 10,000 new jobs. Similarly, the 20 percent tax on sweetened and alcoholic beverages is considered particularly onerous, as Mexicans are the world's largest per capita consumers of soft drinks and heavy consumers of beer. (Source: *The News*, 1/2/02)

ECONOMISTS SAY MEXICO'S NEW TAXES FALL SHORT OF BROAD REFORM

Congress has passed a bundle of new taxes giving the government much-needed cash in 2002, but the measures fall short of the sweeping fiscal reform envisioned by President Fox. Economists and lawmakers estimate the new levies could generate some 69 million pesos
(US$7.5 million), about 1 percent of gross domestic product (GDP) significantly increasing the nation's paltry annual tax take of 10.5 percent of GDP. The amount, however, is only half of Fox's original fiscal reform proposal, sent to Congress in April 2001, sought to garner in its first year. But perhaps most important, economists said, the new taxes do not appear to address the fundamental issue of fiscal reform: improving the government's ability to collect taxes and ensuring the nation's long-term financial stability. According to Gary Newman, senior Latin American Economist with Stanley Morgan, "the measures have fallen short of what I would consider a more comprehensive fiscal reform." Economists describe the measures as an important first step toward shoring up the nation's books, but added the government will likely have to come back to the Congress in a renewed effort for a more deeply rooted fiscal reform. "I think the government still has a lot of work to do to generate more income and reduce the volatility of oil income," said Eduardo Avila, chief economist at Interacciones brokerage. Some traders and economists said the peso and interest rates could come under pressure in coming weeks amid market concern over the tax deal. Although Standard & Poor's (S&P) on Monday, December 31st, 2001, said it was not disappointed and had expected a watered-down package. Still other economists said the new taxes were not enough to ensure Mexico would get the S&P upgrade, which would open the nation's assets to large flows of foreign investment. "It is not a reform; it’s a tax-raising package," said Damian Fraser, Latin American economist at UBS Warburg. "It is not a catalyst to investment grade, but it won't prevent it either, he said. (Source: *The News*, 1/02/02)

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO CITY

REPORT #	TITLE	DATE
MX1217	Weekly Highlights & Hot Bites, #44	12/14/01
MX1218	Reauthorization and Addition of More Ports of Entry for U.S. Apples	12/14/01
MX1219	Mexico Announces Additional Authorized Entry Points for Textile Products	12/14/01
MX1220	Mexico Increases the List of Authorized Entry Points for Selected Agricultural Products	12/14/01
MX1221	Mexico Processed Food Sector	12/17/01
MX1222	Changes to Regulations to Import Potato Products	12/18/01
MX1223	General Specifications for Labeling on PrePackaged Foods and Non Alcoholic Beverages	12/20/01

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