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Report Highlights:

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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.

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MEXICO FACES ITS WORSE AGRICULTURAL TRADE DEFICIT

At the close of 2002, "Mexico could fall into its most severe agricultural trade deficit in history, lower than the record low USD \$3 billion for 2001," warned the Mexican National Action Against Free Trade Network. The organization called the current situation an "agricultural disaster", and cited that Mexico imports more than 20 percent of its corn, while 9 out of 10 kilos of rice, more than 90 percent of soybeans, and a third of sorghum is for domestic consumption. (Source: La Jornada, 12/30/03)

THE FINANCE MINISTRY PROMISES TO CANCEL FARMER'S FISCAL DEBT

On Friday, January 3, 2003, the Secretariat of Finance (SHCP) announced in the "Diario Oficial" (Mexico's Federal Register), that farmers with fiscal debts will be exempt from payment. SCHP claims this measure will stimulate economic recovery in the agriculture sector. The measure will allow farmers to erase fiscal debts generated prior to December 31, 2002. SCHP informed that the people, whose income represents at least 90 percent of farming activity will be included in this pardon scheme. The Secretariat also pointed out that fiscal credits will not include property or vehicle use tax or taxes on vehicular imports. Analysts indicate that the resources SHCP will sacrifice will be very low as federal tax collection in the agriculture sector is less than 1 percent (Source: Reforma, 1/3/2003).

FEDERAL GOVERNMENT WILL CLOSELY MONITOR NAFTA COUNTRY IMPORTS

The Finance Secretary announced in the Diario Oficial (Federal Register) on December 30, 2002, that the 2003 Fiscal Budget Law of the Federation would be implemented on January 1, 2003. This law states that the Federal Government will strictly monitor the evolution of imports from the United States and Canada on the following products: Bacon 0209.00.01 and 0209.00.99; Pork and Poultry lard 1501.00.01; Barley 1003.00.02 and 1003.00.99; Poultry meat products 01.05, 0207.11.01, 0207.12.01, 0207.32.01, 0207.33.01, 0207.24.01, 02.25.01; Poultry for processing 0207.13.01, 0207.14.01, 0207.26.01, 0207.06.99, 0207.27.01, 0207.27.99; Ham, pork shoulder and pork cuts 0203.12.01, 0203.22.01; Potatoes 0701.90.99; chicken frames 0207.26.02, 0207.27.03. The Executive Branch will provide a monthly report to Congress. If there is an increase in imports from the U.S. or Canada, compared to last year's imports that will imply danger or imminent danger of producing damages, the Executive Branch will immediately initiate safeguard actions according to the Foreign Trade Law. (Source: Diario Oficial, 12/30/02).

AGREEMENTS BETWEEN THE GOVERNMENT AND FARMER ORGANIZATIONS

During the January 2, 2003 meetings between the government and farmer organizations represented in the Permanent Agricultural Council (CAP), the following was agreed to: (1) to establish seven working groups that will begin functioning this week; (2) to include NAFTA issues, law reforms, agricultural sector financing, and public policy review on the agenda; (3) to summon a National Convention for Agricultural Development on February 2 to 4; and (4) to sign a National Agreement for Agriculture on February 5. Still, not all the farmer

organizations agreed to extend the truce until February 5, and indicated that although they will participate in the working groups, they will also participate in border blockades, if necessary, after the twenty-day truce previously agreed upon has elapsed (January 20). Ms. Guadalupe Martinez, coordinator of the CAP, indicated that the working groups will give their conclusions on the first days of February at the National Convention and, thereafter, will sign the National Agreement. This Convention will determine if Mexico will declare a moratorium, review the NAFTA, and every other mechanism for agricultural policy assessment. (Source: Financiero, Economía, Universal, Excelsior 01/03/03).

AGRICULTURAL SUMMIT

This year's National Farmworkers Council (CNC) conference is a strategic planning meeting to discuss the annual restructuring of agriculture policy. The conference is being held in Boca del Rio, Veracruz and includes high-ranking government officials from the Secretaries of Agriculture, Economy and Finance, in addition to 17 state representatives and farm worker organizations. The conference began on January 5, 2003 and will last the entire week. CNC President, Heladio Ramírez López emphasized that this summit will redefine and ratify their position on the NAFTA agricultural chapter. (Source: Milenio Diario, 1/6/03).

STRUCTURAL PROBLEMS IN AGRICULTURE POLICY

At the dawn of the 10th year signing anniversary of the NAFTA, "Mexico is yet to reach the levels of competitiveness required in its agricultural sector" notes renowned economist Abel Pérez Zamorano. The implementation of the NAFTA required structural changes that if followed would have brought about productive adjustment changes in preparation for open market competition with the United States and Canada. "The NAFTA was the perfect opportunity whereby Mexico could have developed all of its productive sectors specifically in the area of agriculture." (Source: Reforma, 12/30/02).

CONTRACEPTIVE CORN ALERT

Members of the scientific community in coordination with environmental organizations issued an alert against the United States' laboratory testing that created a spermicide from the genetic alteration of corn. By injecting into corn an external gene that kills sperm, Epicyte Corporation's "contraceptive corn" sets the stage for further R&D. But, researcher Ariel Alvarez of the Polytechnic National Institute in Mexico City warned that this corn should not be used for birth control. He added, "if we let the biotech industry do as they will, then we will only be seeing the beginning of an onslaught of other experiments." Epicyte designed the contraceptive corn with antibodies that could potentially block the transmission of HIV and genital herpes. Both Dupont and Dow utilize the corn, but only for the corn's plastic production properties. (El Universal 1/3/03).

FOX CONTINUES PRI POLICY ON CORN QUOTAS AND TARIFFS

On December 29, 2002, President Fox stated that he would continue the PRI party policy allowing corn import and quotas for the starch, livestock, and flour industries. NAFTA import quotas were established for a 15-year period, but in the case of corn, import quotas have only overlapped since 1995. Since then, excess quotas have allegedly entered without paying the NAFTA duty, despite the fact that allegedly in the previous two years, no tariffs were changed on nearly 4 million tons of corn. (Source: El Financiero, 12/30/03).

FARM WORKERS DEMAND SPECIAL FUND

Farm worker leaders are strongly fighting for a renegotiation of the agricultural chapter of the NAFTA. They propose: (1) that under the National Pact for the Farmland, the United States should provide economic resources towards the development of the Mexican agricultural sector; (2) that the total elimination of tariffs (lifted January 1, 2003) be postponed for a five-year period; (3) and that aggressive tariff quotas and safeguards on all "sensitive" products be implemented. Farm worker organizations still have not determined

whether they should also include Canada in this renegotiation. Farm worker leaders justify this anti-United States claim under NAFTA Article 102 F that allows for a possible Canadian exemption to such requirements. The clause specifically states that, for the sake of the creation of “complementary economies”, countries may create extra agreements that will ultimately benefit all three countries in the long run. (Source: Milenio Diario, 1/2/03).

UNITED STATES LIFTS TUNA EMBARGO

After 12 years of commercial dispute, Mexican tuna will now be exported to the United States. Secretary of Agriculture, Mr. Usabiaga boasts about this victory, while the opposition leadership is calling it a “political gift” from the Bush administration. The United States now recognizes that Mexican tuna fishing boats operate under environmentally sustainable conditions, without harming dolphins. In the past, the United States Department of Commerce, under the auspices of the Fish and Marine Service, objected to the techniques used by Mexican tuna fishers. Mechanisms are in place to monitor tuna fishing in open seas and to protect dolphins. (Source: El Universal, Milenio Diario, Reforma, El Financiero, 1/2/03).

FEDERAL GOVERNMENT’S POSITION ON NAFTA

On January 5, 2003, at the National Farm Workers Council’s (CNC) annual conference, Secretary of Agriculture, Mr. Usabiaga, indicated via interview, that there are sufficient reasons to protest, but that such reasons are not necessarily a result of the NAFTA. He further stated that “there is a need for less protests and more work, less criticisms and more proposals, less controversial actions and more commitment to actions.” (Source: Reforma, 12/30/02).

ANTI-NAFTA PROTESTS ENSUE

The January 1, 2003 elimination of duties on 40 agricultural products incited farm worker protests against this NAFTA tariff phase out. In Ciudad Juarez, farm workers affiliated with the organization “The Farmland Can’t Stand Anymore” initiated a three-day border blockade of a cargo lane on the International Bridge on the Isle of Córdova that connects to El Paso, Texas. The organization’s director, Víctor Quintana claimed that more organizations would soon join in solidarity against the duty free entrance of foreign agriculture products. The Permanent Agricultural Council (CAP) will continue hosting dialogues with the federal government in order to implement the National Farmland Agreement, which President Fox must sign. (Source: Reforma, Milenio Diario, 1/2/03).

20-DAY TRUCE ON BLOCKADES

On December 31, 2002, farm worker group leaders offered the federal government a 20-day truce during which, they will not block any international board crossings. In turn, the leaders requested that the federal government renegotiate the NAFTA agricultural chapter, create an agricultural relief fund, and demonstrate true political commitment for the agricultural sector. The federal government and farm worker leaders reached an agreement called the National Farmland Pact which will be implemented this week through working groups. Secretary of Economy, Luis Ernest Derbez opened the possibility of requesting that the United States and Canada revise the NAFTA agricultural chapter in hopes of protecting their domestic markets. (Source: Milenio Diario, Reforma, El Financiero, 12/31/02).

CLARIFICATION: “NAFTA WILL NOT BE RENEGOTIATED”

On January 6, 2003, at the National Farm Workers Council’s (CNC) annual conference, President Fox warned that NAFTA is a “law which is not subject for revision. Our only solution is to be more competitive”, he later extolled. Fox noted that a joint evaluation of the NAFTA has proven positive overall and has forged an efficient and modernized economy. (Source: Reforma, La Jornada, El Universal, El Financiero, 1/7/03).

SCREAMING AND JEERING: USABIAGA IS SHOT DOWN FROM STAGE

On the evening of January 6, 2003, in Boca del Rio, Veracruz at the National Farm Workers Council (CNC) annual conference, pandemonium and chaos broke out. Secretary of Agriculture, Mr. Usabiaga was thrown off stage by angry farmers after making untactful accusations about where to place blame for Mexico's uncompetitive agricultural sector. The angry mob cried out "liar," among other diatribes, and threw rotten tomatoes and onions in response to the Secretary's undiplomatic comments. The incident took place after Mr. Usabiaga indirectly pointed the finger back at the farmers for their own mistakes and "errors". Before being jeered, Mr. Usabiaga called for better planning that would minimize risk due to climate change and solutions that could better protect farmers' income. (Source: La Jornada, Reforma, El Financiero, 1/7/03).

LEGISLATORS NOT TOGETHER WITH PRESIDENT ON NAFTA

Legislators' perception of President Fox on agricultural issues is that his lack of insight could be detrimental to the future of farming. Representatives from the leading parties reached a consensus that farmers will not prosper unless the NAFTA is renegotiated. Senate leaders coalesced and rallied against the Executive, in response to the Secretary of Foreign Affairs, Jorge G. Castañeda's official announcement at the CNC annual conference. Mr. Castañeda had clearly explained that "the solution to our problems (agriculture) will not be solved through NAFTA renegotiation, this is a simplistic argument." (Source: La Jornada, Reforma, El Financiero, 1/7/03; El Universal, 1/6/03).

HUNGER STRIKES CULMINATE THE RECENT SLEW OF FARMER PROTESTS

On January 6, 2003, farmers protested for the renegotiation of the agricultural chapter of the NAFTA. Members of the 500,000-strong group, "The Farmland Can't Stand Anymore," began their hunger strikes at the base of the historic Angel of Independence in Mexico City, just outside the United States Embassy. Additionally, protesters demanded "true political commitment" from President Fox and the release of farmer political prisoners that were detained during the symbolic Ciudad Juarez border blockade. The organizers added that more hunger strikes from their and other organizations would take place. Marching protests against the NAFTA are presently underway in the states of Tamaulipas, Aguascalientes, Chiapas and in the state capital of Durango. (Source: La Jornada, El Universal, 1/7/03).

15-DAY BAN ON CALIFORNIA EGGS AND CHICKEN

On January 3, 2003, Mexico placed a 15-day ban on California eggs and chicken. It did so after Canada declared a complete ban on Californian eggs and chicken. This ban will be in place until it is certain that California eggs and chicken are not infected with the exotic Newcastle epidemic, a disease that has infected 3 million chicken since its discovery, last September. The California Department of Agriculture confirmed the recent ban and clarified that the epidemic has not been proven to harm humans who consume the product; however, it is fatal to chickens. (Source: El Universal, La Jornada 1/4/03).

CATTLE FARMERS WANT 10-YEAR TRUCE

On January 4, 2003, cattle farmers urged the federal government to revise the agricultural chapter of the NAFTA. Alleging loss of food-producing sovereignty and claiming they have an infant industry justification for the truce. To invoke the infant industry argument, cattle farmers must demonstrate that short-term protection of a new industry is needed in order to compete with the larger and more experienced United States industry. The National Cattlefarmer Confederation (CNG) petitioned a 10-year delay on the elimination of tariffs until the domestic industry can adapt to market conditions and be competitive with the United States. (Source: El Financiero, 1/5/03).

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO CITY

Number	Title	Date
MX2174	Weekly Highlights & Hot Bites, Issue # 44	12/23/02
MX2175	Weekly Highlights & Hot Bites, Issue # 44	12/31/02
MX3001	Import Monitoring Program for 2003	01/02/03
MX3002	Import Requirements for Newcastle Disease and Poultry Meat for Further Processing	01/03/03
MX3003	Creation of Tariff Lines for Chicken Leg quarters	01/03/03
MX3004	Mexico Initiates Antidumping Investigation	01/07/03