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Report Highlights:

**Mexico's Reaction to Announcement of U.S. Sugar Quota*Initiative to Ban U.S. Fructose Imports*Mexico's Meat Imports to be Inspected In Mexico*Should the Tomato Suspension Agreement End?*New Labeling Requirements for Dairy Products*Mexico to Import More Edible Pork Fat & Oils*Warning for Contaminated Corn*The Presence of Transgenic Elements in Local Corn
*Mexico's Tequila Exports Fall**

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'S REACTION TO THE ANNOUNCEMENT OF THE U.S. SUGAR QUOTA

Most of the reactions in Mexico to the announcement by the U.S. Government of the 2001 sugar tariff-rate quota were negative, indicating that the increase of the quota from 116,000 MT to 137,000 MT did not comply with the NAFTA Agreement. The Secretary of Economy, Luis Ernesto Derbez, declared that the increase was not enough and that Mexico will keep on demanding to export the total sugar surplus. Mr. Derbez added that he will insist on the establishment of a dispute resolution panel to solve this issue. The Lower Chamber of the Congress was also irritated when they received the news of the quota. Moreover, the Chamber for the Sugar and Alcohol Industries disagreed with the lower export quota offered to Mexico, and urged the government to establish a dispute resolution panel with the United States. (Source: *El Financiero, Reforma, El Universal*, 9/19/01; *Milenio*, 9/20/01)

INITIATIVE TO BAN U.S. FRUCTOSE IMPORTS

On September 19, 2001, Congress published in the *Congressional Gazette* an "initiative" prohibiting imports of fructose and yellow corn for the production of fructose. The initiative is still in the Lower Chamber. It must go to the Senate and then to the President for approval. Whether it will take days or weeks will depend on how fast the committees move it. The initiative considers this prohibition as helping consolidate the sugar industry and the expropriation of 27 sugar mills on September 3, 2001. The initiative indicates that since the United States has not complied with NAFTA to absorb the Mexican sugar surplus, the domestic market has been negatively affected. Moreover, unrestricted U.S. fructose and subsidized yellow corn imports to produce fructose have added to the Mexican sugar glut. The initiative references different articles, 131 in particular, in the Mexican Constitution that gives Congress the power to take such action, even if the action contradicts NAFTA and the WTO. This is important because it could keep importers from filing court injunctions to circumvent the decree. (Source: *Gazeta Parlamentaria*, 9/19/01; *El Universal*, 9/18/01; *El Financiero, Reforma*, 9/19/01)

MEXICO'S MEAT IMPORTS TO BE INSPECTED IN MEXICO

On September 19, 2001, Mexico's Secretariat of Agriculture, Livestock and Rural Development (SAGARPA) published an emergency regulation, NOM-EM-014-ZOO-2001, to establish specifications for installation and operation of import verification points for meat products. Its implementation will impact the current U.S. meat inspection facilities for export to Mexico. This regulation is in compliance with the amendments to the Federal Law of Animal Health

published in Mexico's "*Diario Oficial*" (Federal Register) on June 12, 2000. The main issue contained in this regulation is that all verification and inspection points will have to be located in Mexico and will be required to meet the rather stringent construction requirements. The current law which allows meat and meat product import verification points in the United States to continue operating until December 12, 2001, will allow these facilities to continue operating up to December 12, 2001. (Source: OAA/Mexico City, 9/20/01)

SHOULD THE TOMATO SUSPENSION AGREEMENT END?

According to local news, the President of the Agricultural Associations in the State of Sinaloa, Mr. Rolando Zubias, said Mexican growers are negotiating with the U.S. Department of Commerce to continue the Tomato Suspension Agreement. This Agreement allows producers to export tomatoes at the U.S. reference price of US\$5.27 per 25 pound box. This Agreement is scheduled to end in October 2001. Note: In general growers have indicated in the past that the Agreement was positive for both countries preventing gluts in the U.S. market. (Source: *El Mercado Agropecuario*, 9/17/01)

NEW LABELING REQUIREMENTS FOR DAIRY PRODUCTS

In November of this year, the Secretariat of Economy will publish an obligatory labeling regulation for milk. This regulation will obligate the dairy industry to differentiate milk products from those manufactured with milk whey or other milk based products by labeling them as lactic formulas or food complements. This decision came as a result of pressure on the Mexican government from the Mexican Milk Producers Association which has been demanding for several years that processors of whey into fluid milk substitutes label their product as a "milk type drink" and not as milk. (Source: *El Financiero*, 9/18/01)

MEXICO TO IMPORT MORE EDIBLE PORK FAT AND OILS

On October 19, 2001, Mexico's Secretariat of Economy will conduct an auction for import permits (*cupos*) to the Mexican private sector to import 7,507 MT of U.S. edible pork fat and oils under NAFTA tariff-rate quotas. This auction is limited to Mexican companies within the food industry who use the listed products in their production process. That fact notwithstanding, this auction may impact U.S. exporters because those Mexican importers who are granted the *cupos* will be looking for product to fill the permit shortly after the auction, if not earlier. (Source: OAA/Mexico City, 9/20/01)

WARNING ABOUT CONTAMINATED CORN

On September 18, 2001, Greenpeace announced that DNA from genetically engineered (GE) corn had been detected for the first time in native Mexican varieties. Warning of a risk to the genetic diversity of Mexican corn that could threaten the security of the world food supply, Greenpeace Mexico Director Raul Benet and Lisa Covantes, Greenpeace Coordinator of Biotechnology Campaign, demanded that the government block GE corn's entrance into the country. Mr. Benet said Mexico not only has the ethical and historical responsibility to defend this grain that has been so important to Mexico's culture and feeding the world, but also the

responsibility to the international community to protect the genetic resources of this species. During the news conference, Benet said he learned of the engineered DNA's domestic presence from the Commission on Biosecurity and Genetically Modified Organisms. Greenpeace is calling on the government to implement an "emergency plan" to identify and destroy GE crops, diagnose the situation's severity on both a local and national level, and formulate a plan to prevent the importation of more GE corn. According to Benet, the cultivation of GE crops is currently illegal in Mexico, but the importation of corn for human and animal consumption is allowed without regulation. While imported GE corn may not be intended for cultivation, there is nothing stopping farmers from planting seeds of the imported GE varieties, said Benet. Once the seeds have grown into mature corn stalks, they can cross-pollinate with native varieties located nearby, passing on their GE characteristics. Critics of biotechnology argue the mid to long-term ecological effects of cultivating GE crops and the health hazards of eating GE food are totally unpredictable. "Now we're not just polluting the water, the air and land, we're contaminating the genetic foundation of life," Benet warned. (Source: *El Universal and Reforma*, 9/18/01)

THE PRESENCE OF TRANSGENIC ELEMENTS IN LOCAL CORN

According to a local newspaper, as a response to the Greenpeace announcement on September 18, 2001 (see the article above), the Mexican Secretariat of Environment and Natural Resources (SEMARNAT) announced test results confirming the presence of transgenic elements in some local varieties of corn being grown in the Sierra Norte of Oaxaca. SEMARNAT, however, stressed that the possibility that these elements could have any adverse health effects is practically nil. The National Institute of Ecology (INE), in collaboration with CONABIO (National Institute of Biodiversity Commission) and with the participation of local farmers, collected field samples in the above-mentioned area. The corn samples thus obtained were divided into two lots for analysis by Mexican institutions with recognized reputations: the Institute of Ecology of UNAM (National Autonomous University of Mexico) and the Irapuato Campus of the Center for Research and Advanced Studies (CINVESTAV) of the National Polytechnic Institute (IPN). SEMARNAT said data obtained in the cornfields suggest a low frequency of contaminated kernels, although accompanied by a broad geographic distribution. There are many traditional cornfields in Oaxaca in which the presence of transgenic elements are found, but in the majority of these, the frequency of these elements does not predominate over the traditional variety. The possibility that the transgenic elements could have any effect on health is practically nil, since according to data obtained in the U.S., where various types of transgenic corn are cultivated and consumed, these sequences have not had an adverse effect on health. (Source: *Reforma*, 9/20/2001)

MEXICO'S TEQUILA EXPORTS FALL

According to a local newspaper, the Tequila Regulatory Council (CRT) said the nation's tequila production slid 16 percent and exports fell 24 percent in the January to August period from a year earlier amid slowing economies at home and abroad. In the first eight months of the year, tequila production dropped to 100.7 million liters from 120.8 million liters compared to the same period last year. Exports of the traditional liquor, meanwhile, slid to 50.4 million liters in the seven-month period (Jan-July) from 66.4 million liters shipped during the same period in 2000. CRT

says the falling export sales stem primarily from the decelerating economy in the United States. (Source: *The News*, 9/20/01)

REMINDER FOR PUBLIC COMMENTS ON PENDING PROPOSED REGULATIONS

PROY-NOM-081-FITO-2001: Proposed rule for the handling and elimination of sources of infestation of nonregulated pests, by means of establishing or regulating planting, harvest and destruction of residue dates. **Deadline for Comments: October 29, 2001.**

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO

Report #	Title	Date
MX1164	Weekly Highlights & Hot Bites, Issue #32	9/13/01
MX1165	Mexico's Monthly Crop Update, August 2001	9/13/01
MX1166	Auction of Permits to Import Pork Fat & Oils Set for October 19, 2001	9/20/01

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