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Report Highlights:
Mexico Tomato Production Forecast * SAGARPA Pledges Transparency for Agriculture Subsidy Program * Mexico in Danger of Losing Tropical Forests During This Century * Industry Leaders Offer to Cover Parts of Value-Added Tax * Reopening of Additional Ports of Entry for U.S. Apples * Mexico Implements Animal Health Law: Closes Selected Inspection Sites

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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 TOMATO PRODUCTION FORECAST

Tomato production in Mexico for MY 2001/02 is not forecast to increase much over MY 2000/01. High costs of production and oversupplies for the last two years limit increases in area planted. Area planted will also depend on the demand from the export market, mainly the United States. Exports have been increasing year after year, but at low rates and low export prices. The base price tomato agreement between the U.S. and Mexico has worked well. Although this agreement ended in October 2001, it will remain in place while both governments decide on next steps. Although overall area planted for tomatoes remains unchanged, area for processing tomatoes has been reduced, due to a decrease in tomato paste production. The Mexican industry has reduced production of tomato paste, due to high international inventories and lower demand. Imports of tomato paste have grown to cover domestic demand. For additional information see report MX 1212. (Source OAA/Mexico City)

SAGARPA PLEDGES TRANSPARENCY FOR AGRICULTURE SUBSIDY PROGRAM

On December 11, 2001, leaders from Mexico's eight political parties signed an agreement with Agriculture Secretary Javier Usabiaga to end political manipulation of the government's largest subsidy program. In a ceremony at a Mexico City hotel, Usabiaga gave each of the party chiefs a gift-wrapped package of more than 30 compact discs containing a data base of the nearly three million beneficiaries of the Direct Subsidies Program (Procampo). The data base will be updated continually on Internet, said Juan Antonio Fernandez, who heads Procampo. For their part, the party leaders pledged not to use the $1.3 billion program for political ends. "During the various elections that have taken place this year, the finger pointing that this program was being misused has not stopped," said Fernandez. Created in 1994 by then President Carlos Salinas, Procampo was criticized by opposition parties as a corporatist and voter-coercing tool of the Institutional Revolutionary Party (PRI). Since ousting the PRI from power last year, President Vicente Fox has vowed to reform Procampo to make it more efficient and transparent. In September, Fox announced Procampo beneficiaries would be given bank cards bearing the Agriculture Secretariat (SAGARPA) seal that could be used to access the subsidy directly from any cash machine. He said the cards would eliminate the need for intermediaries and thus reduce the chances the money would end up in the pockets of government officials or be used to coerce the nation's campesinos. (Source: *The News*, 12/12/01)

MEXICO IN DANGER OF LOSING TROPICAL FORESTS DURING THIS CENTURY

Mexico could lose its tropical jungles within decades if the government does not seriously increase the amount of money it allocates to deal with deforestation, according to the Environment Secretary Victor Lichtinger. A study released this week showed that Mexico lost an average of 1.1 million hectares (2.72 million acres) of forests and jungles each year between 1993 and 2000, which is nearly twice as much as what government officials had previously estimated. "It has been quite a shock to encounter how grave the situation really is," said Victor Lichtinger, who blames the phenomenon primarily on the expansion of farmland and grazing areas, and to a lesser extent on illegal logging. If the government does not spend enough money dealing with the problem of deforestation, Mexico will have no tropical jungles left by the year 2059, he said. Among the jungles in critical danger, he said, are those on the Yucatan peninsula, in the southeastern Gulf coast states of Tabasco and Veracruz, and in the southernmost state of Chiapas. Lichtinger indicated Chiapas is home to the Lacandon rain forest, one of the most biologically diverse areas in the country, and one that could disappear in 10-30 years if things do not change. All together, Mexico lost 7.8 million hectares (19 million acres) of pine and fir forests and tropical jungles during the seven-year period. The loss of trees, evident in dramatic satellite photographs taken for the study, also has a grave effect on other areas of the environment, the Secretary said. It changes the formation and course of rivers, diminishes the soil's fertility and capacity to retain groundwater, reduces rainfall in deforested areas, and exacerbates natural disasters such as landslides. He also pointed out that the rapid loss of forests corresponds to a simultaneous increase in farming and grazing land cleared by the 10 million to 15 million poor farmers who have no other means of making a living. Mexico's confusing land-registry laws and decades of politically motivated land reforms have made it unclear who owns the lands in question, making it easy for squatters to occupy forests. Lastly, Lichtinger blames NAFTA-related government policies that subsidize the expansion of farmlands in an effort to compete with the United States' and Canada's farming subsidies. A lesser culprit, he said, is illegal logging, an industry that state and local governments not only have failed to stop, but from which they have profited. Poor farmers participate in the industry by selling the most valuable wood from the forests before burning them to create farm and grazing land. (Source: *El Mercado Agropecuario*, 12/10/01)

INDUSTRY LEADERS OFFER TO COVER PARTS OF VALUE-ADDED TAX

Mexico’s industrial sector is ready to contribute between 3 to 5 percent of the government's proposed value-added tax (VAT) on foods and drinks, a local newspaper reported. Raul Picard, president of the National Chamber of the Industry of Transformation, said major companies are ready to cover this amount if, in turn, Congress passes a "responsible" fiscal reform package. "This would imply a cost of 30 billion pesos (US$3.2 billion) for companies, but it would mean an additional income of 90 billion pesos (US$9.7 billion) for the Treasury," Picard explained. Picard added that taxing basic foods would also be a way for the government to rein in the informal economy. "With the VAT, those in the informal economy will start paying taxes and this will have a multiplying effect on the government's income," the industry leader said. President Vicente Fox's proposal to reform the nation's inefficient tax system has been stalled in Congress since April. Opposition erupted over the president's plan to boost federal revenue through a 15 percent value-added tax (VAT) on currently exempt food and medicine. (Source:

Reforma, 12/10/01)

REOPENING OF ADDITIONAL PORTS OF ENTRY FOR U.S. APPLES

On December 14, 2001, the Secretariat of Treasury (SHCP) announced in the Diario Oficial (Federal Register) the reauthorization and addition of certain customs ports of entry for apples from the United States. The announcement reauthorized Mexicali, Nuevo Laredo, and Veracruz as official border crossings and added Tuxpan. This brings to nine the total number of authorized border crossings for U.S. apples: Ciudad Juarez, Ciudad Reynosa, Manzanillo, Mexicali, Nogales, Nuevo Laredo, Tijuana, Tuxpan, and Veracruz. Earlier this year in a June 29, 2001 Diario Oficial announcement, SHCP had limited U.S. apple imports to only five ports of entry (see report MX1102), effectively decreasing by half the number of official entry points for U.S. apples which had been originally agreed upon by USDA and SAGARPA under an Apple Work Plan signed in 1996. Since June of this year, the Office of Agricultural Affairs in Mexico has been requesting that SHCP reopen those ports which were originally agreed to by SAGARPA, its sister agency. This announcement is part of SHCP'S 2000 Fiscal Year Budget for Foreign Trade. (Source: Diario Oficial 12/14/01)

MEXICO IMPLEMENTS ANIMAL HEALTH LAW: CLOSES SELECTED INSPECTION SITES

As of December 13, 2001, the Secretariat of Agriculture (SAGARPA) implemented the Animal Health Law upon failure of Congress to approve a last minute extension. The Animal Health Law stipulates that all sanitary inspections for meat products and by-products must be conducted on the Mexican side of the border. As a result of this law, SAGARPA closed several verification points on the U.S. side of the border, prohibiting the crossing of meat and poultry products at Nogales, AR, McAllen, TX, and Brownsville, TX. SAGARPA will, however, continue to conduct inspections at seven verification points on the U.S. side of the border that are operating under a Mexican court injunction (amparo). There is one import verification point in San Diego, CA, one in Calexico, CA. one in El Paso, TX, and four in Laredo, TX. In addition, there is one approved import verification point on the Mexican side of the border at Colombia, Nuevo Leon/Laredo, TX.

The Lower Chamber of the Mexican Congress passed an initiative to extend implementation of the Animal Health Law for another 6 months. The initiative is currently in the Senate and should be voted on in the next couple of days. Reopening of the border, however, is dependent upon the publication of the extension in the Mexican "Diario Oficial." Given that most major border crossing points will have inspection service, albeit reduced, SAGARPA is not expecting any immediate crossing problems. If implementation of the law is not reversed soon, however, there will be major congestion problems that will threaten U.S. exports of meat and poultry products valued at $1.2 billion per year. (Source: OAA/Mexico City)

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO

REPORT #	TITLE	DATE
MX1207	Weekly Highlights & Hot Bites, #43	12/7/01
MX1209	Pork Imports from U.S. Exceed 2001 Safeguard	12/7/01
MX1210	Wine Marketing Annual	12/10/01
MX1212	Annual Tomato Report, MY2001/02	12/10/01
MX1213	Import Permits (Cupos) for U.S. Animal Fat & Oils under NAFTA for 2002	12/11/01
MX1214	New Tariff Rate Quotas (TRQs) for U.S. Barley and Malt for 2002	12/11/01
MX1215	Auction Permits to Import Pork Fat & Oils Set for January 25, 2002	12/12/01
MX1216	Mexico's Caribbean Market for Food Products	12/13/01

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