



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 5/16/2008

GAIN Report Number: MX8034

Mexico

Agricultural Situation

Weekly Highlights and Hot Bites #18

2008

Approved by:

Suzanne Heinen
U.S. Embassy

Prepared by:

Gabriel Hernandez, Benjamin Juarez, Dulce Flores, Luis Chavez, Suzanne Bond, Zaida San Juan and Mark Ford

Report Highlights:

- LESS MEAT, HIGHER PRICES
- SAGARPA: TRANSGENIC CORN TO BE PLANTED BY THE END OF 2008
- GRUMA GUARANTEES SUPPLY
- TORTILLA PRICE INCREASE EXPECTED
- TRANSGENIC MYTHS
- INTERMEDIARIES ARE BENEFITING FROM PRICE INCREASES
- SUGAR SURPLUS, TO BE USED FOR ETHANOL PRODUCTION
- POULTRY AND EGGS ARE AFFECTED BY CURRENT FOOD CRISIS
- SABRITAS PROMOTES AGRICULTURE-BY-CONTRACT SCHEMES IN MEXICO
- BREAD CONSUMPTION IN MEXICO FALLS 20 PERCENT
- GOM: IMPORTS NEEDED FOR ONLY 10% OF MEXICO'S FOOD DEMAND

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Mexico City [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.

LESS MEAT, HIGHER PRICES

Jaime Yesaki Cavazos, President of the National Agricultural Council (CAN), said that in three months there will be less beef, pork and chicken on the market, which will in return increase prices and allow producers to balance their costs. Yesaki also explained that beef, pork and poultry producers decided not to replenish their stocks due to the price increase of corn, soy beans, sorghum, and wheat. He also added that Mexican producers have not raised the price of meats due to high grain costs. Ruben Garza Gonzalez, President of the Mexican Association of Livestock Feed Lots (AMEG), stated that since March, producers have reduced their stocks 30 percent. Vicente Garcia Vazquez, President of the Confederation of Mexican Pork Producers, said that pig production has decreased 25 percent since the price of grains has increased. He also pointed out that pork producers have a feed shortage, which was caused by an increase in prices due to higher world-wide consumption and biofuels development. (Source: El Mercado Agropecuario 05/12/2008)

SAGARPA: TRANSGENIC CORN TO BE PLANTED BY THE END OF 2008

The Secretary of Agriculture (SAGARPA) recently stated that fields in the south of Tamaulipas and the north of Sinaloa have the space, and opportunity, to plant transgenic corn in the summer/winter 2008-09 cycle. In a recent interview, Victor Manuel Villalobos, International Affairs Coordinator for SAGARPA, said that their planting results will be ready by the middle of 2009. "The first plantings will be with semi-commercial and commercial seed, and the seeds will be planted where they don't cultivate criolla types of corn," said Villalobos. He anticipated that decisions for the exact planting area won't be easy, and he expects a discussion on the origin centers of corn to take place. "It could take us years to truly define the origin of corn because it could be extremely difficult to locate," stated Villalobos. He also said that the Biosafety Bill for Genetically Modified Organisms (LBOGM) should be finalized in the middle of 2008, and that the federal government is satisfied with the bill. "A country like Mexico requires biotechnology and transgenic seeds to feed its citizens, and we are simply considering the damage and benefits it could create," finished Villalobos. (Source: La Jornada 05/13/2008).

GRUMA GUARANTEES SUPPLY

While the national production is decreasing and international inventories are reducing, GRUMA (tortilla producer) recently guaranteed its supply for one year and a half. GRUMA protected itself from the increase in grain prices, as well as a lack of supply, by purchasing long-term corn and wheat contracts in 2007. "We have noticed that there is less planting in some areas and yields are lower, which makes this a very somber reality," said Raul Pelaez, Financial Director of GRUMA. "We simply covered ourselves with attractive option contracts,"

said Pelaez. "For example, today the corn contract is \$ 6.20 (pesos), but we bought it for 3.80 last year." Pelaez added that in the case of wheat, anticipated purchases were made to cover their demand for 10 months, and this will continue to be their strategy for the future. (Source: Reforma 05/15/2008).

TORTILLA PRICE INCREASE EXPECTED

The National Chamber of the Dough and Tortilla Industry recently stated that tortilla prices in some markets will increase nearly 18 percent in June. It is an increase that could be a new headache for Mexico's Central Bank in its fight against an inflationary turnaround. Rafael Ortega, President of the Chamber, commented that the price of tortillas, a staple in the Mexican diet, could climb 17.6 percent, from 8.50 pesos to 10 pesos per kilo (around one dollar). The Chamber has 22,000 establishments in Mexico and represents 50 percent of the industry. Mexico's Central Bank anticipates rising prices starting in the second quarter of the year and, for that reason, raised its inflation forecast. Currently, the inflation forecast is between 4.5 and five percent for the second and third quarter of the year, above the official forecast of three percent. (Source: Excelsior; 05/ 15/2008)

TRANSGENIC MYTHS

The article starts out by stating: a Chinese person requests a steak in a restaurant in Shanghai; in Iowa, a farmer gets a subsidy to plant corn and produce ethanol; in Haiti, the Prime Minister loses his job. According to Analyst Juan Pardinás, these three situations are interconnected - the growth of a demanding middle class in Asia and the shift of production from food to fuel have translated into grain scarcity and high prices, which has created social unrest and political crises in under-developed countries. Countries, like Russia and Brazil, have enough land to expand their agricultural territory, thus the need to increase crop yields. Mexico's average yield in corn is 2.5 MT per hectare, compared to the United States' 9 MT per hectare. Biotechnology has created the options to increase crop yields, but a series of prejudices and myths have prevented transgenic seeds from reaching the market. According to a recent study, one year of production with genetically modified seeds would bring more than 200,000 Mexicans out from "food poverty" (i.e., the possibility to eat three healthy meals a day). Pardinás concluded by saying that Mexico should fight its own fears and open up to biotechnology. (Source: Reforma; 4/10/08)

INTERMEDIARIES ARE BENEFITING FROM PRICE INCREASES

Jose Luis Gonzalez, of the Mexican Permanent Agricultural Congress, blamed intermediaries for taking advantage of price increases and taking nearly 60 percent of the grain production, estimated at 28.39 million MT last year. Gonzalez requested that the GOM and the agricultural organizations coordinate to establish a strategy that limits intermediaries from purchasing more than their necessary requirements, which would benefit producers and consumers with better prices on both ends. (Source: El Sol De Mexico, 5/10/08)

SUGAR SURPLUS TO BE USED FOR ETHANOL PRODUCTION

"The first stage for ethanol production in Mexico should be to use Mexican sugar as their main input," said Isabel Gomez, President of the E-Mission Foundation, a NGO that has been driving the efforts to use ethanol in fuels in the metropolitan areas of Mexico's three largest cities. Gomez stated that Mexico has produced ethanol for nine years, but with the lack of a legal framework, the production has only been used by the pharmaceutical industry. "With the new Bio-fuels Law, and the pilot test for fuel distributed in Guadalajara, the sugar industry could diversify into fuel and energy generation," said Gomez. Meanwhile, researchers are testing other crops that could substitute for sugar, in order to prevent a food

vs. fuel controversy, which is something the GOM has clearly kept in mind while defining the National Biofuels Program. Agriculture Secretary Alberto Cardenas said that the GOM is working to have a solid biofuel industry by 2012, but they are taking into account the food requirements of the population. (Source: La Prensa; 5/11/08)

POULTRY AND EGGS ARE AFFECTED BY CURRENT FOOD CRISIS

Mexico's National Union of Poultry Producers (UNA) stated the current food crisis is hitting some of the small and medium egg and poultry producers in the country and is forcing them out of business. Jaime Crivelli, President of UNA, explained that the increase of grain prices, approximately 100 percent since 2006, has translated into higher production costs, about 30 percent. Crivelli explained that this increase in demand, along with a reduction in production because of high costs, will translate into an increase of imports, 95 percent of which come from the United States. (Source: Excelsior; 3/12/08)

SABRITAS PROMOTES AGRICULTURE-BY-CONTRACT SCHEMES IN MEXICO

In order to solve the food challenges presented by production diversification, international prices, and technologic innovations, SABRITAS (the PepsiCo snack division in Mexico) is promoting the use of agriculture-by-contract schemes in Mexico. Pedro Padierna, President of SABRITAS for Mexico, Central America, and the Caribbean, explained that SABRITAS has used this scheme with potato growers for more than 10 years by buying multi-annual contracts and investing in new varieties. SABRITAS uses 22 percent of the industrial-oriented potato production in Mexico and nearly 100 snack companies in Mexico use potatoes as an input. SABRITAS also used nearly 115,000 MT of corn last year, and they are also replicating this same scheme with corn, wheat, and hot pepper producers. (Source: El Financiero; 3/12/08)

BREAD CONSUMPTION IN MEXICO FALLS 20 PERCENT

Mexico's National Chamber of the Bread Industry (CANAINPA) announced that bread consumption in Mexico has fallen from 15 percent to 20 percent. CANAINPA claims the reduction comes after more than a 100 percent increase in the price of wheat. Leopoldo Gonzalez, President of CANAINPA, is concerned that although costs have increased over 140 percent in the last 10 months, supermarket chains are offering bread at the same price. "Supermarket chains sell bread in other countries at six times the price they do in Mexico," explained Gonzalez. "We don't know if they made an alliance with other suppliers to keep prices low, but they are selling well below the cost." However, Gonzalez also said many believe grain prices will stabilize soon, and they have high hopes the domestic crops expected in the May-July period will help ease prices. (Source: Excelsior; 3/13/08)

GOM: IMPORTS NEEDED FOR ONLY 10 PERCENT OF MEXICO'S FOOD DEMAND

According to Alberto Cardenas, Mexico's Secretary of Agriculture, Mexico will continue to import grains, but not for long since the country is counting on productivity gains to reduce their dependency on imports. Cardenas explained in an interview that the GOM is estimating that by 2012, imports will only be needed to cover 10 percent of their food demand. Among the specific goals, one is to be self-sufficient in corn. He explained that the GOM's strategy for the rural sector targets productivity, by increasing training and transferring technology to agricultural workers and by increasing crop yields. He defended NAFTA once again, saying there was "no avalanche of U.S. products threatening domestic production". (Source: El Sol De Mexico; 3/14/08)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX8033	Dairy Semi-Annual	5/15/08
MX8032	Coffee Annual	5/14/08
MX8031	Cotton Annual	5/13/08
MX8030	Weekly Highlights and Hot Bites #17	5/9/08
MX8029	Weekly Highlights and Hot Bites #16	5/2/08
MX8028	Weekly Highlights and Hot Bites #15	4/25/08
MX8026	Sugar Annual	4/15/08
MX8025	Weekly Highlights and Hot Bites #14	4/11/08
MX8024	Oilseeds Annual	4/10/08
MX8023	Pork Subsidy Announcement	4/8/08
MX8022	Weekly Highlights and Hot Bites #13	4/4/08
MX8021	Weekly Highlights and Hot Bites #12	3/28/08
MX8020	Modifications to Authorized Crossing Border Points for Specific Agricultural Commodities	3/26/08
MX8019	Weekly Highlights and Hot Bites #11	3/14/08
MX8017	Grain & Feed Annual	3/10/08

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:

AgMexico@usda.gov , ATOMexico@usda.gov , or ATOMonterrey@usda.gov