



# NAFTAWorks



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES

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## MEXICAN AVOCADO FOR EVERYONE

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Thanks to the NAFTA, consumers through out Mexico, the U.S. and Canada enjoy the benefits brought by free trade. After 93 years, the last U.S. barrier to avocados imported from Mexico has been lifted. As of Feb. 1, Californians, Hawaiians and Floridians can now join their fellow Americans in enjoying the fruits of a competitive market.

The ban on avocados from south of the border dates to 1914, when U.S. agricultural officials barred them because they found that some avocados from Mexico carried fruit flies that could possibly infest U.S. avocado orchards. Outraged Mexican officials maintained that it was all a plot to corner the avocado 's future market. Mexican farmers later switched to growing Hass avocados, which are less hospitable to fruit flies, but the ban still persisted.

Many decades later, in 1993 the U.S. Department of Agriculture (USDA) allowed Mexican avocados into Alaska, four years later, in 1997, after extensive study and public consultation, the USDA partially lifted the ban by adopting the Mexican Hass Avocado Import Program. As part of this program, USDA adopted a stringent "systems approach" to ensure the safety of avocado imports from Mexico. This approach requires that imported avocados pass through a succession of pest-protection safeguards, including pre-certification of Mexican avocado orchards, field surveys, and inspections both at the packinghouse and the port of arrival.

In addition, the import program limited Mexican avocado imports to 19 colder Northeast states and the District of Columbia and only allowed imports from November through February. Given the success of this initial action, in 2001 USDA expanded the import program to 12 more states and extended the importing season from October 15 through April 15.

By 2005, people in 47 states were dicing, mashing or simply peeling and eating avocados from Mexico. In California, Florida and Hawaii, which are allowed to protect their own avocado farmers, the ban remained until 2007. The total opening of the market culminated years of joint work and cooperation between authorities and industry of both countries.



Mexico's wider access to the US fresh avocado market illustrates NAFTA's role in eliminating even the most enduring sanitary and phitosanitary trade barriers when they are not technically and scientifically justified.

Nothing illustrates how relevant free trade for consumers is than the unfortunate event occurred last January when a severe winter storm hit California, the core of the U.S. avocado land (96%). The California Avocado Commission estimates that 25% of state's crop this year will be lost. In a closed market scenario, no doubts that a short supply and high prices would have decreased the American people's ability to enjoy this product.

*continues on page 2*

## Mexico Economic Update

	Dec 2006		Jan-Dec 2006		Jan 2006	Jan 2007		Nov 2005	Nov 2006
	Value (USbd)	Annual Change %	Value (USbd)	Annual Change %					
<b>Foreign Trade</b>									
Exports	20.16	3.9	250.29	16.8					
Manufacturing	16.73	6.6	202.87	15.8					
Oil	2.62	-10.5	39.12	22.7					
Imports	21.28	3.3	256.13	15.5					
Balance	-1.13	-6.7	-5.84	-23.0					
<b>Financial Indicators</b>									
Inflation Rate (Jun/Jun)					3.9	4.0			
Interest Rate (CETES 28)					7.9	7.0			
Stock Market Index (IPC)					18,728	26,564			
Exchange Rate (pesos/dollar)					10.55	10.95			
International Reserves (USbd)					69.6	67.8			
<b>Employment</b>									
Open Unemployment					2.84	3.47			
<b>Economic Growth</b>									
Global Economic Activity Index (IGAE)							2.5%	4.7%	
<b>Industrial Activity</b>									
Industrial Production							2.7%	1.6%	
Manufacturing							1.8%	0.9%	
Mining							6.4%	-3.1%	
Construction							7.3%	4.3%	

Source: Ministry of the Economy with Banxico and INEGI data.

US bd= US billion dollar



A robust supply of avocados from Mexico will help head off any shortage of fruit resulting from the frigid temperatures that struck California's avocado crop in the short term and the growing domestic demand in the mid and long term.

Avocado consumption nationwide has ballooned 300 million pounds in the last three years, to reach a billion pounds currently, but despite the flood of avocados into the market, the price varied only by 1 percent. It seems that American voracity for avocados has not reached its limits yet. Americans eat 3 pounds of avocados per capita on average, almost 7 times less than the 20 pounds that Mexicans consume in a year.

Mexico is by far the world's largest avocado producer, supplying over one third of the world's total production and over 40 percent of the world's exports. The state of Michoacan is the main producing state in Mexico, accounting for more than 88 percent of total avocado production.

Michoacan is the only state in Mexico that is allowed to export avocados to the United States. The area is blessed with fertile volcanic soil, a temperate climate and variations in altitude that permit a year-round "endless season" of cultivation.

Mexico's geographic proximity to the U.S.' largest cities of the northeast coast allows this region to enjoy the exceptional quality of its rich and creamy avocados at the same distance as California grown avocados. Likewise, the reliable supply and reduced shipping costs, makes it possible for just about every single American home from Maine to California and from Alaska to Florida enjoy avocados at the peak of ripeness just-in-time to be eaten at the dinner table, because its proximity allows Mexican producers to deliver the fruit two days after it is cut from the tree.

To compete in the world market, Mexican producers understand they must meet strict health standards.

Before they can ship to the United States, Mexican orchards and packing houses must be certified as meeting U.S. standards. The 4,000 growers who have met those requirements are constantly supervised by Mexican agricultural officials and USDA inspectors.

All the facilities complies with the criteria established in the Good Agricultural Practices and also with the Good Manufacturing Practices.

The fruit is washed with an antibacterial spray before being boxed for shipment to U.S. clients.

One company has also reduced its use of pesticides 70 percent by releasing beneficial insects to devour bugs that feed on avocados.

While some measures were imposed by the USDA, others were initiated by Michoacan's producers.

As in any win-win free trade deal, Mexico is also experiencing immediate benefits because of the elimination of the remaining trade barriers. Just recently, Mexico became the U.S. largest avocado supplier accounting for half of the more than 264,000 tons imported in 2005, and by 2006, Mexico's share in the U.S. import market increased to 60%.

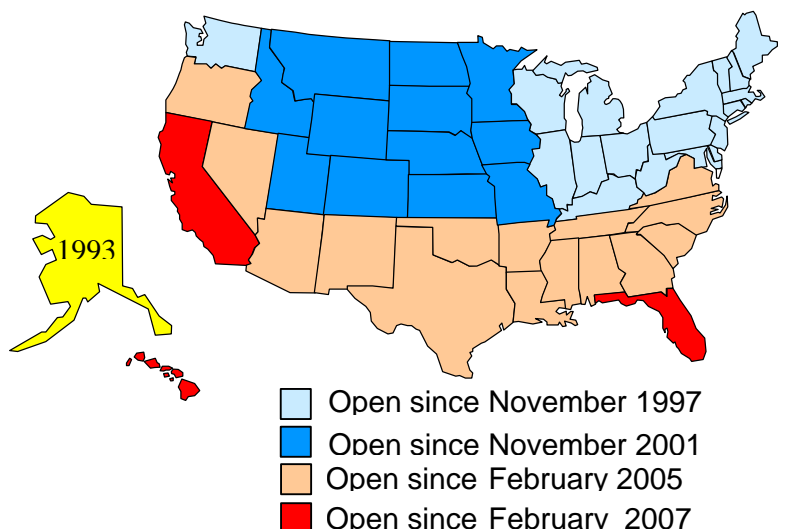
Now, thanks to NAFTA, more US consumers will enjoy the delicious taste of Mexican avocados.

The opening of the US avocado market has created new business opportunities for Mexican and US producers, shippers, distributors, and retailers, by generating new jobs on both sides of the border. For Mexico in particular, the avocado industry provides employment to 400,000 people in Mexico.

The implementation of the disciplines established in the Agreement demonstrates that the NAFTA works since it provides effective institutional mechanisms for the eventual resolution of possible trade disputes.

During the kick off of the first shipment of the fruit to California, Mexican President Felipe Calderon noted that Mexico would rather send its avocados to the U.S. than send its avocado farmers. So it's good news for everyone.

Left to right: Michoacan Governor Lazaro Cardenas, President Felipe Calderon and U.S. Secretary of Commerce Carlos Gutierrez. During the kick off of the first shipment to California.





## Mexico and U.S. sign textile customs cooperation agreement

On January 26, at the World Economic Forum in Davos, Switzerland, U.S. Trade Representative Susan C. Schwab and Mexican Minister of Economy Eduardo Sojo signed a customs cooperation agreement, as a first step to implementing the textile cumulation provision of the Dominican Republic - Central America Free Trade Agreement (CAFTA-DR).

The cumulation provision will allow apparel produced in Central America that incorporates certain fabric and other inputs from Mexico to qualify for duty preferences when exported to the United States under CAFTA-DR.

"I am very pleased to have completed this customs cooperation agreement," said Ambassador Schwab. "This has been a high priority for our industry and the industries in the region. I hope that the remaining requirements for the implementation of the cumulation provision will be completed soon."

Minister Sojo commented "Under the principle of reciprocity, Mexico will also grant preferential treatment to goods coming from Central America that include US-made fabrics, taking advantage of the Free Trade Agreements entered by Mexico with Central America"

The customs cooperation agreement is the first of several agreements that need to implement the cumulation provision for certain apparel products that was included in CAFTA-DR.

Under the agreement signed today, Mexican and U.S. customs authorities will cooperate to ensure proper verification of claims of preferential treatment under CAFTA-DR for apparel that contain inputs from Mexico. The agreement provides for sharing of information and documents, procedures for production verification, including through unannounced plant visits, and penalties in the event of inaccurate claims. The agreement is modeled on analogous provisions of the CAFTA-DR.

The cumulation provision is subject to annual limits on the quantity of apparel that will receive preferential treatment and covers a limited set of products. For cumulation to be effective with respect to Mexico, Mexico must also amend each of its free trade agreements with the Central American countries to provide, on a reciprocal basis, for preferential treatment of Central American apparel goods containing U.S. inputs that are exported to Mexico.

Once these amendments are reached and implemented in the domestic law of Mexico and the CAFTA-DR countries, the cumulation provisions of CAFTA-DR will enter into force with respect to Mexico.

The United States and Mexico began negotiations in the fall of 2005 on the customs cooperation agreement and concluded negotiations on the agreement on November 16, 2006.

## U.S. Commerce Secretary Carlos M. Gutierrez Visited Mexico

On February 1st, Secretary Gutierrez met with President Calderon, officials and business leaders to advocate for the expansion of opportunity and economic growth of the United States and Mexico. This meeting was the perfect opportunity for President Calderon, who already has a major focus on the economy, and Gutierrez to exchange their ideas about how to better promote the growth of the US and Mexican economy. Commerce Secretary Gutierrez also met with President Calderon and governor of Michoacán, Lázaro Cárdenas Batel, on February 2nd to celebrate the opening of the US market to avocados from Michoacán, Mexico.

During his visit in Mexico City, Gutierrez began his address by affirming that Mexico is a priority for the United States as stated by Bush last November. The success of NAFTA resonates within the data and statistics of rising exports from the United States and Mexico since its inception.

"Through November [2006], US exports to Mexico were \$124 billion, up nearly 13 percent over the same period in 2005. And Mexico's exports to the United States were \$183 billion, up nearly 18 percent. As you know, the World Bank recently ranked Mexico as one of the top three economic reformers in the world last year," remarked Gutierrez.

Secretary Gutierrez discussed the top three priorities that are crucial for an economy to flourish: Transparency and Predictability in the Rule of Law, Investment in Human capital, and Competitiveness. As pre-requisites for a successful economy, Gutierrez explained the importance of each.

"In a business-friendly environment, a company needs to know what the rules are going to be five or ten years from now so they know how to play the game... Education is the key to producing the entrepreneurs, the innovators and the workforce necessary to maintain a robust private sector... What the partnership [Security and Prosperity Partnership of North America] is doing is working to remove red tape and unnecessary obstacles to trade, to grow our economies, and to enhance the safety and security of all our citizens."

Gutierrez's invaluable advice was followed by statistics. The bottom line within his discussion remained clear: "Trade, capital and free enterprise deliver results."

Secretary Carlos Gutierrez was born in Havana, Cuba and received his degree for business administration from Monterrey Institute of Technology in Queretaro, Mexico. Before being appointed as commerce secretary, Gutierrez was the CEO for Kellogg Co. after first working his way up from being a truck driver for the company.

Gutierrez is very optimistic about the economic growth of Mexico and asserted, "I don't need anybody to convince me that Mexico can get it done. I know what Mexican workers and executives can do because I've seen it."



# Diario Oficial Notices

## [Success Stories](#)

- ◆ Agreement notifying the mechanism to assign preferences in 2007, for imports with preferential duties granted under Mexico's commitments in the World Trade Organization (WTO). (January 1).
- ◆ First and Second Resolution modifying the Agreement through which the Ministry of the Economy has issued general rules and practices on foreign trade. (January 4).
- ◆ Final Resolution regarding the validity of the compensatory duties applicable to imports of valves made of steel or iron from China. (January 11).
- ◆ Clarification to the Final Resolution of the dumping investigation concerning imports of red delicious and golden delicious apples from the USA. (January 11).
- ◆ Third Resolution modifying the General Rules on Foreign Trade for 2006 and its annexes 1, 22 and 27. (January 22).
- ◆ Project of the Mexican Official Standard No. PROY-NOM-011-ENER-2006, regarding energy efficiency in central air conditioners. Limits, testing methods and labeling. (January 22).
- ◆ Agreement notifying the 2007 duty-free import quota for milk powder imported from WTO members. (January 23).
- ◆ Agreement announcing the 2007 import quota for milk powder imported from USA, according to the North American Free Trade Agreement (NAFTA). (January 23).
- ◆ Agreement modifying the existing one announcing the import quota for corn imported from the USA or Canada in the period 2004-2007, with the preference established under the NAFTA. (January 23).
- ◆ Twelfth Resolution of Modifications to the Fiscal Resolution for 2006 and its annex 5. (January 30).
- ◆ Final Decision of the Binational Panel Review pursuant article 1904 of the NAFTA, in the matter of oil country tubular goods from Mexico: final results of sunset review of antidumping duty. (January 31).
- ◆ Final Decision of the Binational Panel Review pursuant article 1904 of the NAFTA, in the matter of oil country tubular goods from Mexico: final results of antidumping duty administrative review and determination not to revoke. Redetermination on remand. (January 31).

### **Hill-Rom to establish in Nuevo Leon**

The American Company Hill-Rom, manufacturer of hospital equipment, will invest US\$25 million.

The modern facility, located in Apodaca, state of Nuevo Leon, is ideally positioned to serve both North American and Latin American markets. The new facility is scheduled to produce Hill-Rom's line of stretchers and low acuity frames.

The facility will generate 750 new jobs throughout three stages within five years, starting with three production lines to manufacture products and one line for product development.

Mark Baron, senior vice president of operations and product development, said, "After extensive due diligence throughout Northern Mexico, Monterrey was a natural selection because of its long and rich history of industrial success coupled with its leading academic institutions and health care."

Hill-Rom is a leading worldwide manufacturer and provider of medical technologies and related services for the health care industry, including patient support systems, non-invasive therapeutic products for a variety of acute and chronic medical conditions, medical equipment rentals and workflow information technology solutions.

### **Wal-Mart Mexico achieved highest sales level in 2006**

Wal-Mart Mexico (WALMEX) is the largest retail company in Mexico, whose shares have been traded in the Mexican Stock Exchange since 1977. It operates 893 units (grocery stores, restaurants and department stores).

Wal-Mart Mexico reached a historical level in 2006, US\$18.19 billion, an increase of 20.2% over the previous year. Comparable stores' sales, meaning all those units that have been in operation for over a year, registered an increase of 9.8% compared to the year 2005.

Just in December 2006, sales amounted to US\$2.45 billion, a 22.3% increase over sales reported the same month last year. Comparable stores sales during the last month of the year registered an increase of 13.4% compared to the same month in 2005.

Wal-Mart served 852 million customers, a figure 15% higher than that achieved in the same term of the previous year. The company opened four Bodegas Aurrera in Yurecuaro, Michoacán; Mexico City; Ixtlahuaca, State of Mexico and Sabinas Hidalgo, Nuevo Leon. In addition, two Wal-Mart supercenters were opened in Durango and Queretaro; one Superama in Villahermosa; one Suburbia in Mexico City and six restaurants in Durango, Mexico City, Cancun, Victoria, Cuernavaca and Chetumal.



# Baja California Sur



Capital: La Paz  
 Main cities: La Paz, Los Cabos, Comondu, Mulege & Loreto

Population: 512,170 (2005)  
 81% in the urban area  
 61% under 15 years old  
 6 persons per square kilometer

Education: 96% Literacy rate  
 47,644 with more than High School  
 2,580 Master or Ph.D

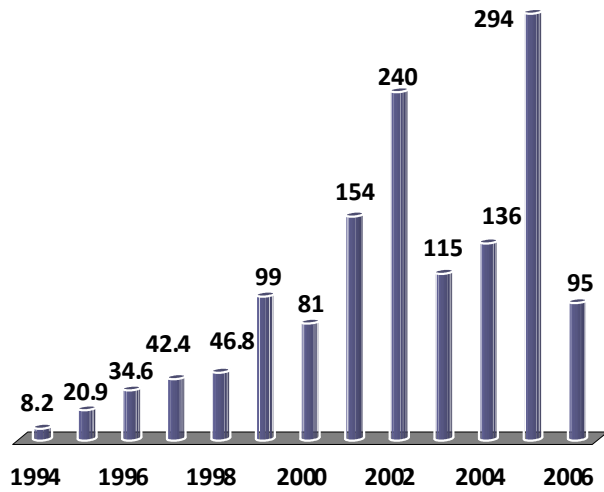
Household with : 25% Computers  
 93% TV  
 87% Refrigerators  
 63% Washing Machine

Infraestructure: 1,760 km of paved roads  
 49 km of highways (4 lanes)  
 3 International Airports  
 2 National Airports  
 23 Universities and technological institutes  
 26 Hospitals  
 117,683 Fixed telephone lines  
 23 Radio stations  
 19 TV stations

Exports: US \$216 Millions (2004)  
 Imports: US \$98 Millions (2004)

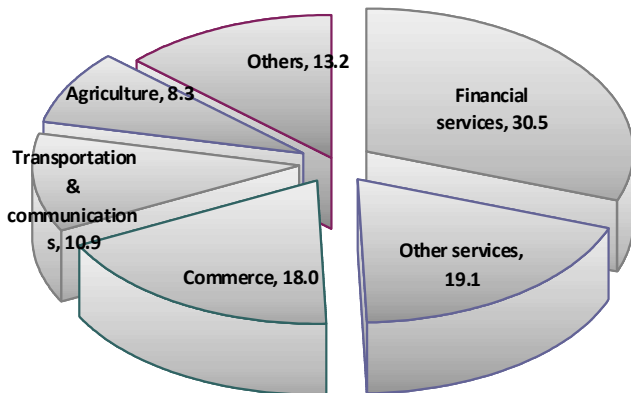
FDI Companies: 2,117

## Foreign Direct Investment (Millionsof US Dollars)

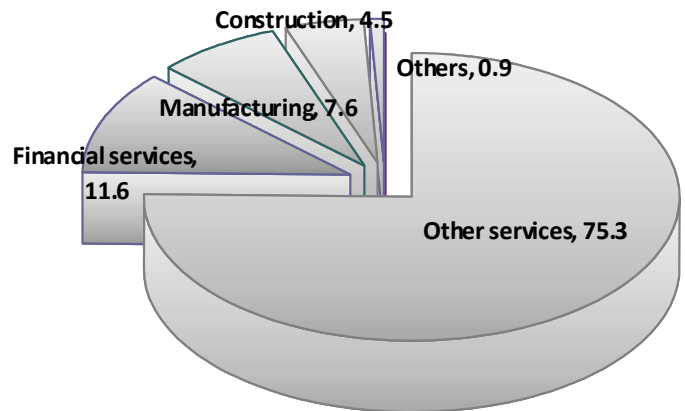


\* 2006 Jan-Sep

## Gross DomesticProduct2004



## Foreign Direct Investment by Sector 99-06 (Percentage)



Web-site: <http://www.bcs.gob.mx/>  
 Tel/Fax: 011 52 (612)123 9406  
 011 52 (612)125 5620



# Wisconsin

In the first nine months of 2006, Wisconsin's exports to Mexico reached \$1.3 billion, an increase of 34.5% in comparison with the same period last year.

In 2005, Mexico's imports from Wisconsin reached \$1.3 billion, up \$1.0 billion from their level in 1993.

Since NAFTA, Wisconsin's sales to Mexico have grown at an annual average rate of 14%. In 2005 the exports to Mexico grew 25%.

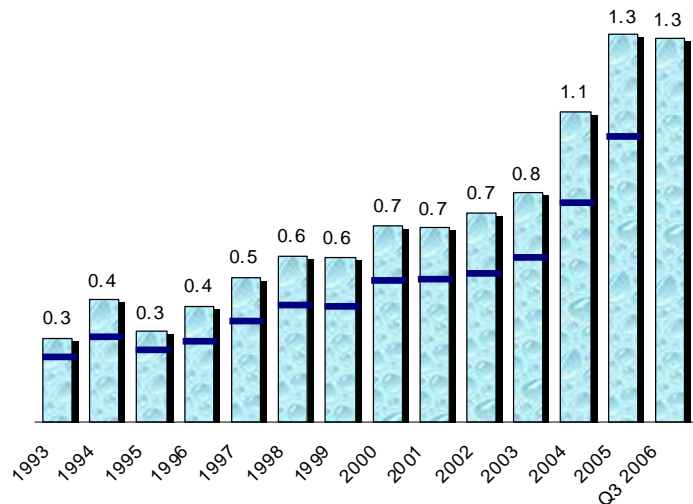
Wisconsin's exports to Mexico outpace more than 4 times those to the Rest of the World (Mexico 361% & RoW 83%).

Among all US states, Wisconsin ranks 16th as an exporter of goods to Mexico in the first nine months of 2006.

Mexico is an important customer of Wisconsin. Among all countries, Mexico ranked as the 2nd largest market for goods from Wisconsin in 2006, up from 7th in 1993, illustrating the impact of NAFTA for Wisconsin's growing business. Mexico accounts for 10.4% of Wisconsin total exports.

## Exports to Mexico

1993-2006\* (Millions of US Dollars)



Source: US Census, WISER and SE-NAFTA Series.  
2000-2006, NAICS series.

## Wisconsin's Opportunities in Mexico

Sector	Wisconsin Total Exports	Wisconsin Exports to Mexico		Mexico Imports		Mexico Total Imports
		Share	from U.S.	Share		
Total	12,673.7	1,314.7	10%	120,049	54%	221,249
Machinery	3,384.5	220.7	7%	11,494	35%	33,082
Computer & Electronic	2,284.9	91.3	4%	23,298	47%	50,065
Transportation Eq.	1,788.9	103.6	6%	14,455	90%	16,073
Appliances	634.5	101.7	16%	8,071	86%	9,360
Paper	585.7	74.8	13%	3,206	62%	5,181
Chemicals	546.0	43.1	8%	12,899	59%	21,924
Food & Kindred Prod.	523.7	46.0	9%	5,641	64%	8,873
Fabricated Metal Prod.	403.9	77.6	19%	5,059	50%	10,073
Miscellaneous Manufactured	352.9	46.7	13%	2,727	67%	4,096
Plastics & Rubber Prod.	341.7	44.5	13%	5,817	78%	7,477
Agricultural Prod.	261.7	5.6	2%	3,590	74%	4,869
Printing & Publishing	209.5	13.0	6%	569	51%	1,114

Source: Ministry of Economy with data from WISER and USDOC



## Selected Readings

## NAFTA Related Events

### **Trade and Employment: Challenges for Policy Research (World Trade Organization and the International Labour Office. World Trade Organization, February 2007)**

This study is the outcome of collaborative research between the World Trade Organization (WTO) Secretariat and the International Labour Office (ILO). It addresses an issue that is of concern to both organizations: the relationship between trade and employment.

On the basis of an overview of the existing academic economic literature, the study provides an impartial view of what can be said, and with what degree of confidence, on the relationship between trade and employment, an often contentious issue of public debate. Its focus is on the connections between trade policies, and labour and social policies and it will be useful to all those who are interested in this debate: academics and policy-makers, workers and employers, trade and labour specialists.

### **SAFTA: Living in a World of Regional Trade Agreements (Rodriguez-Delgado, Jose Daniel . International Monetary Fund, Working Papers, February 2007)**

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=20129.0>

The paper evaluates the South Asia Free Trade Agreement (SAFTA) within the global structure of overlapping regional trade agreements (RTAs) using a modified gravity equation. First, it examines the effects of the Trade Liberalization Program which started in 2006. SAFTA would have a minor effect on regional trade flows and the impact on custom duties would be a manageable fiscal shock for most members. Second, the paper ranks the trade effects of other potential RTAs for individual South Asian countries and SAFTA: RTAs with North American Free Trade Agreement (NAFTA) and the European Union (EU) dominate one with the Association of South East Asian Nations (ASEAN).

### **Public Expenditure in Latin America: Trends and Key Policy Issues (Clements, Benedict J.; Faircloth, Christopher and Verhoeven, Marijn. International Monetary Fund, Working Papers, February 2007)**

<http://www.imf.org/external/pubs/cat/longres.cfm?sk=20244.0>

This paper examines trends in government spending in Latin America from the mid-1990s to 2006. It also examines key policy issues, including the cyclical nature of spending, public investment, public employment, and social expenditures. It finds that primary expenditures have trended upward for the past ten years as a share of GDP, driven by increases in current spending, in particular for social expenditures. Fluctuations in real spending have continued to follow a procyclical pattern. The paper finds that there is substantial scope to improve the efficiency of public investment, public employment, and social spending.

### **February 27 – March 2**

“EXPO COMM MEXICO 2007”

México, D.F. – Centro Banamex

Expo Comm Mexico 2007 is Mexico and Central America's only telecommunications, IT, wireless, networking, and internet technologies exhibition and conference covering all aspects of the telecom sector. In its 15th presentation, EXPO COMM MEXICO 2007 is the place for the leading telecom and technology companies to showcase their latest and most successful innovations and solutions, including satellite technologies, IP-based tools, WiFi solutions, and 3G applications for mobile telephony and mobile portals.

<http://www.ejkrause.com.mx>

### **March 7 – 9**

“EXINTEX TEXTIL 2007 ”

Puebla. Mexico - Centro de Convenciones

International trade fair for home and apparel textile, fashion and machinery.

[http://www.messefrankfurt.com.mx/exintex\\_english/index.html](http://www.messefrankfurt.com.mx/exintex_english/index.html)

### **March 13 – 15**

“EXPO MANUFACTURA”

Monterrey, N.L.. Mexico - Cintermex

Expo manufactura, is recognized as Mexico's leader among metalworking and manufacturing events. Going into its thirteenth year, Expo manufactura brings together buyers and builders to exchange ideas and conduct business. The 2007 exhibition promises to be the optimal international environment for industry professionals to meet and discuss key topics.

[http://www.messefrankfurt.com.mx/exintex\\_english/index.html](http://www.messefrankfurt.com.mx/exintex_english/index.html)

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1911 Pennsylvania Ave. NW

Phone: (202) 728-1700

Fax: (202) 728-1700

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