



# NAFTA Works



A MONTHLY NEWSLETTER ON NAFTA AND RELATED ISSUES

July 2006

Volume 11, Issue 07

## Mayan Organic Coffee Growers

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Isodoro Morales Mauricio is a member of the Chuj ethnic group in Mexico's southern state of Chiapas. Striving to preserve his Mayan heritage while also maintaining his competitiveness in the coffee market, Morales helped form the Indigenous Ecological Federation of Chiapas (FIECH). Founded in 1992, FIECH is composed of 15 organizations, of which 7 produce organic coffee. The growers must work very hard to meet the long list of criteria demanded by the mostly foreign-based organizations that have granted their coffee a coveted organic certification, but that hard work pays off as members can sell their crop for considerably more than they could uncertified coffee.

The most important part of growing organic coffee is the land. Growers must understand nature and the relationships between plants and animals – an understanding also valued in the Mayan culture. To maximize use of the land, terraces are made to help hold the soil in place, since coffee grows best on well-drained hillsides. When the coffee bushes are full of the cherries that contain the beans, the harvesters select the ripe ones. They make sure to limit their harvest to quantities that can be processed right away so that the pulp does not begin to ferment, giving the bean a bad taste.

However, growers face many handicaps when producing organic beans. For example, the FIECH coffee bushes were producing only about 7.6 quintals (about 1,670 lbs.) per hectare because the plantations had too few bushes per hectare overall, and a high percentage of those were old coffee plants nearing the end of their useful life. As a result, the typical farm family

used to earn only about US\$1,730 per year – barely minimum wage. Independently owned processing plants compounded the problem. In addition to their inefficiency and unreliability, the plants did not do justice to the quality of the coffee FIECH was producing. Ninety-five percent of the beans coming out of the processing plants should have been export quality, but the actual portion was only about 78%.

To improve conditions, in 1999, FIECH joined the Inter-American Development Bank in Mexico City, and together the two groups designed a program to remove problems caused by having a middle man in the production process. The project was financed by a US\$464,000 long-term loan and a US\$188,000 grant from the Development Bank. The main outcome of the project was FIECH's very own processing plant located near the Chiapas state capital of Tuxtla Gutiérrez. Its ample production capacity of 420 quintals a day and its facilities for storing up to 15,000 quintals enables FIECH to be self-reliant, increasing efficiency. The Development Bank program also financed warehousing and marketing services so that FIECH could export directly, without relying on intermediaries for sales.

Today, members of FIECH export their coffee worldwide, mainly to Germany, Austria, the Netherlands, the United States, and Canada. They hope to expand into Japan next. As a result of the expansion program, typical family incomes have increased by about 40 percent. The extra income has improved the families' diets and health as well.

*continues on page 2*

## Mexico Economic Update

	Jun 2006		Jan-Jun 2006		Financial Indicators	Jun 2005	Jun 2006	Economic Growth	May 2005	May 2006
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %						
<b>Foreign Trade</b>					<b>Inflation Rate (Jun/Jun)</b>	4.3	3.2	<b>Global Economic Activity Index (IGAE)</b>	3.7%	6.2%
Exports	21.29	16.2	336.86	16.6	<b>Interest Rate (CETES 28)</b>	9.6	7.0	<b>Industrial Activity</b>		
Manufacturing	17.24	14.7	272.67	13.4	<b>Stock Market Index (IPC)</b>	13,376	18,185	<b>Industrial Production</b>	3.1%	5.8%
Oil	3.39	25.1	52.38	38.3	<b>Exchange Rate (pesos/dollar)</b>	10.82	11.39	<b>Manufacturing</b>	2.7%	6.1%
Imports	21.66	17.9	343.90	14.5	<b>International Reserves (US bd)</b>	61.6	78.7	<b>Mining</b>	3.7%	-0.7%
Balance	-0.37	579.6	-7.04	-38.0	<b>Employment</b>			<b>Construction</b>	5.1%	6.8%
					<b>Open Unemployment</b>	3.27	2.88			

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

US bd= US billion dollar



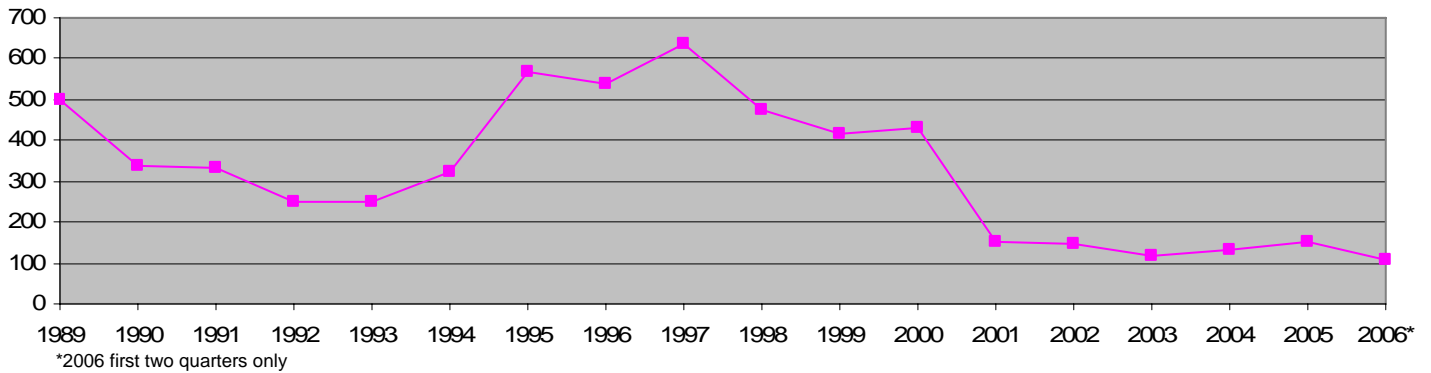
The United States is by far the largest market for Mexican coffee products, consuming half of all exports. This trade, however, only composes 6% of U.S. coffee imports. The majority of U.S. coffee comes from Colombia, Brazil, and Guatemala. Together, these three countries, supply the United States with almost half of its coffee.

And opened for international trade. In the last few years, however, Mexican coffee sales to the United States have started to recover, and have been growing at a moderate pace.

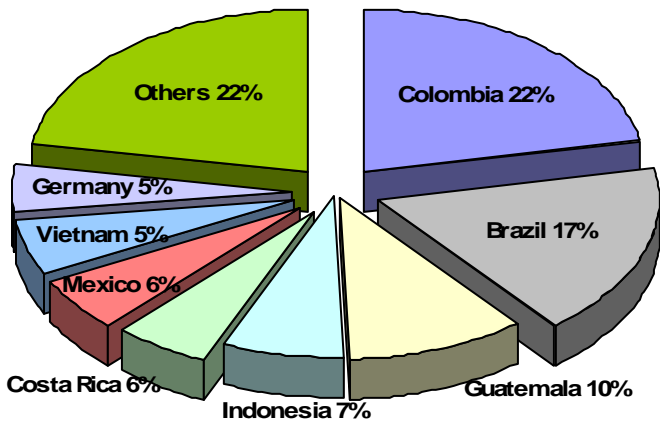
Mexican coffee sales to the U.S. Significantly increased after the passage of NAFTA. In the late nineties, coffee sales surpassed double their pre-NAFTA levels. In 2000, sales sharply decreased as markets in Africa and Southeastern Asia grew

Of the coffee Mexico exports, almost all is non-Arabica that has not been roasted or decaffeinated. Decaffeinated, non-roasted beans of various types also make up a small but significant portion of Mexican production. In contrast, the United States imports primarily non-roasted, non-decaffeinated Arabica coffee. Nonetheless, coffee exports remain an important source of revenue for Mexican agriculture.

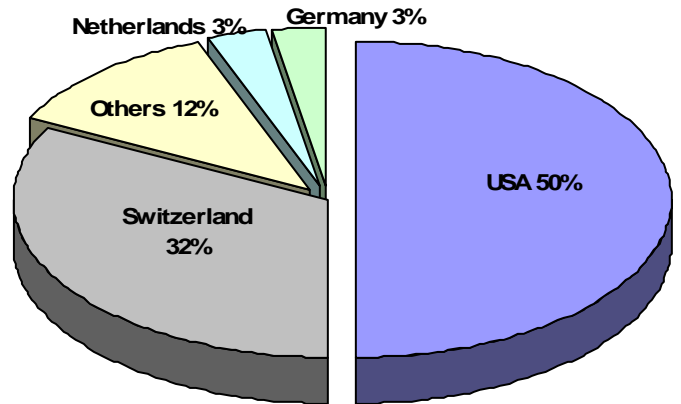
**US Coffee Imports from Mexico by Year**  
US\$ in Millions



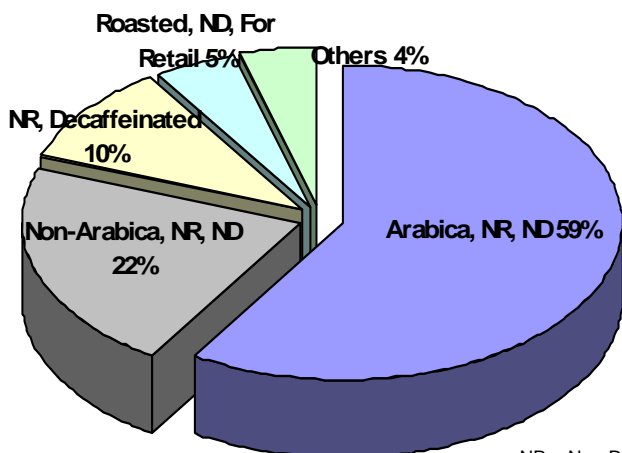
**US Coffee Imports by Country**



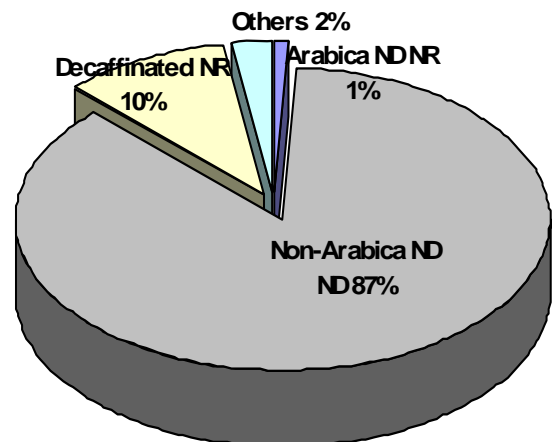
**Mexican Coffee Exports by Country**



**US Coffee Imports by Type**



**Mexican Coffee Exports by Type**



NR = Non-Roasted; ND = Non-Decaffeinated



## Success Stories

## Diario Oficial Notices

### **MD Helicopters invest in new plant in Apodaca**

The American company MD Helicopters announced the investment of US\$15 million to produce helicopter fuselages to be exported to several countries. Located in Apodaca, the new plant will occupy a 5,381,933 square foot building in the Millennium Industrial Park. They will supply fuselages for six- and eight-seat helicopters to North and South America. The company's plans are to triple plant size in the future, but for now they are hiring between 25 and 50 people for qualified labor.

### **Flextronics to open new industrial plant in Ciudad Juarez**

Flextronics announced a plan to invest over US\$20 million and generate 1,740 jobs. Operations will begin next August, and are estimated to create 5,000 jobs in the next three years. The plant will occupy 430,000 square feet, of which 30,000 square feet will be exclusively devoted to the production area. The company already has 2 production plants in Mexico: one in Guadalajara with 8,000 employees and another in Aguascalientes with 2,000 employees.

### **Michelin expands in Queretaro**

Michelin Retread Technology (MRT) announced the construction of a new plant in Mexico that will join the Michelin Mexico headquarters with the Car and Truck Tires Plant in Queretaro. This decision was in response to growing demand. As demand has gone up by half a million treads this year, the franchise plans to open 15 retreading plants. Production is expected to start in the first quarter of 2007 and will employ 120 people to supply Mexico and the rest of North America with retreading products.

### **General Motors begins building in San Luis Potosi**

General Motors announced the investment of over US\$650 million in the construction of a new assembly plant, which will produce 30 vehicles per hour, in the Villa de Reyes municipality. Construction is expected to last 18 months; therefore, the first vehicle to be assembled in San Luis Potosi should be ready in May 2008. This plant will be located in Logistik Park with a global investment of US\$650 million, equal to almost MEP\$7 billion, which is more than half of the State's

◆ Mexican Official Standard NOM-004-SCFI-2006, labeling information on textile products. (June 2).

◆ Promulgatory Decree of the Modifications to Annex 401 of NAFTA. (June 23).

◆ Decree amending, adding and revoking certain dispositions of the Federal Economic Competition Law. (June 28).

◆ Decree amending certain dispositions of the Federal Fiscal Code, the Income Tax Law, the Value Added Tax Law, and the Special Tax Law on Production and Services (IEPS Law). (June 28).

First Resolution modifying the Fiscal Resolution for 2006. (July 3).

◆ Proposed Mexican Official Standard PROY-NOM-041-SEMARNAT-2006. Establishing the maximum limits allowed for the emission of polluting gases by automotive vehicles using gasoline as fuel. (July 3).

◆ Promulgatory Decree of the Agreement signed between Mexico and the US, in Mexico City on 12/12/2005, which amends the existing Air Transportation Agreement of 15/08/60. (July 18).

◆ Decree modifying, adding and abolishing certain provisions of the General Law on Instruments and Credit Operations, the Law on Credit Institutions and Related Credit Activities, the General Law on Insurance Institutions, the Federal Law on Bailing Institutions (Fianzas), the Law Regulating the Financial Groups, the Savings and Credit Law, the Foreign Investment Law, the Income Tax Law, the Value Added Tax Law and the Federal Fiscal Law. (July 18).



# Puebla



Exports: US \$3825 Millions (2004)  
 Imports: US \$3823 Millions (2004)

Maquiladora: 69 and employs 21067 workers

FDI Companies: 568

Capital: Puebla  
 Main cities: Puebla, Tehuacán, San Martín Texmelucan, Atlixco y San Pedro Cholula

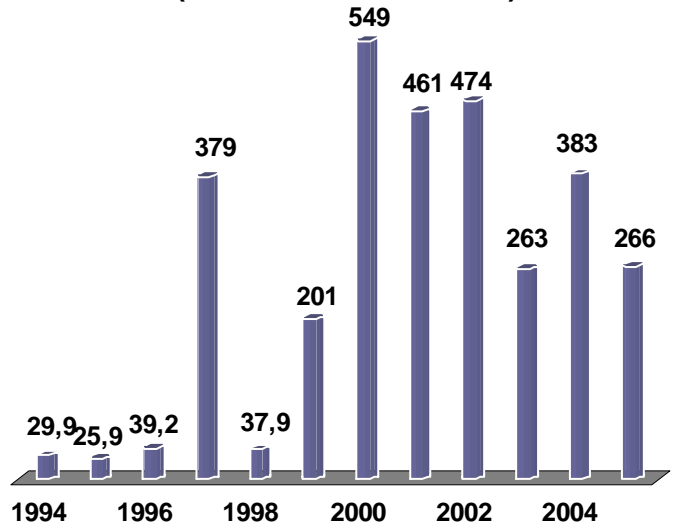
Population: 5 383 133 (2005)  
 68% in the urban area  
 63% under 30 years old  
 149 persons per square kilometer

Education: 85% Literacy rate  
 388 291 with more than High School  
 22 497 Masters or Ph.D.

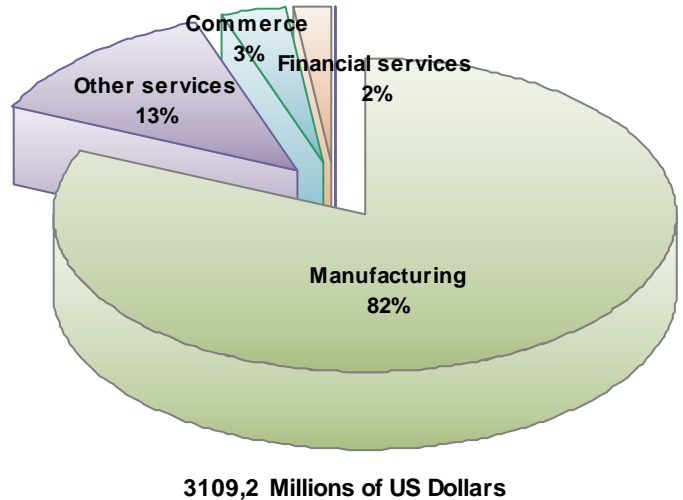
Households with:  
 14% Computers  
 87% TVs  
 58% Refrigerators  
 43% Washing Machines

Infrastructure:  
 4 394 km of paved roads  
 225 km of highways (4 lanes)  
 1 International Airport  
 353 Universities and technological institutes  
 158 Hospitals  
 787 115 Fixed telephone lines  
 38 Radio stations  
 8 TV stations

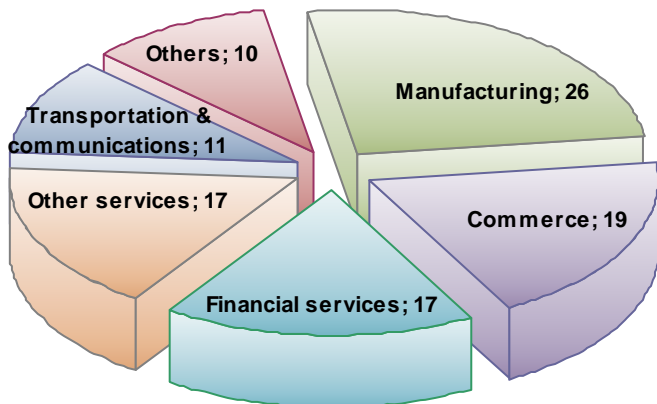
## Foreign Direct Investment (Millions of US Dollars)



## Foreign Direct Investment by Sector 94-05 (Percentage)



## Gross Domestic Product 2004



Web-site: [www.sedeco.pue.gob.mx](http://www.sedeco.pue.gob.mx)  
 E-mail: [contacto.sedeco@puebla.gob.mx](mailto:contacto.sedeco@puebla.gob.mx)  
 Tel/Fax: 011 52 (222) 229 8200 Ext. 2291



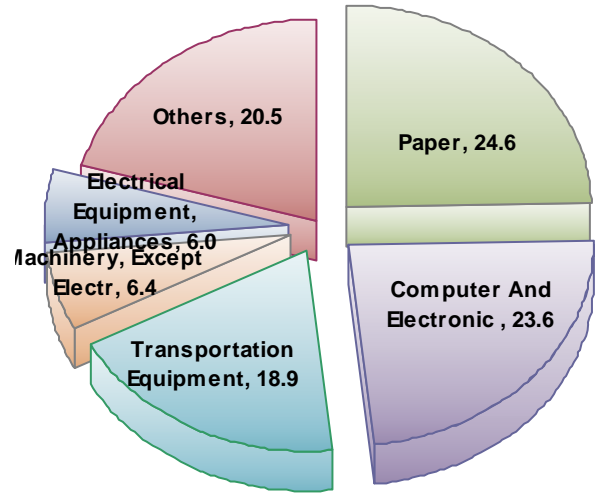
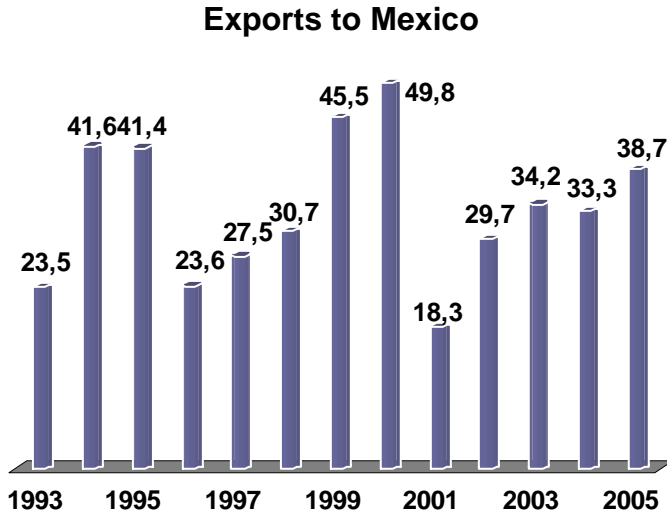
# Vermont

In 2005, Vermont's exports to Mexico increased 65% in twelve years of NAFTA, while those to the Rest of the World rose 55%.

Mexico is the eleventh largest consumer market of Vermont's exports.

## Exports to Mexico By Sector (NAICS)

2005



Source: US Census, WISER and SE-NAFTA Series. 2000-2005, NAICS series.

Source: US Census, WISER and SE-NAFTA. SIC Series 1993-2000 NAICS series 2001-2005.

## Vermont Exports to Mexico by Industry

Sorted by 2005, total value in US dollars, following NAICS

Rank	NAICS	Description	2003	2004	2005	%03-04	%04-05
		Total	34,179,640	33,300,466	38,743,333	(2.6)	16.3
1	322	Paper	6,236,857	6,852,243	9,514,523	9.9	38.9
2	334	Computer And Electronic Products	11,200,921	7,361,949	9,144,147	(34.3)	24.2
3	336	Transportation Equipment	7,225,877	8,232,271	7,340,402	13.9	(10.8)
4	333	Machinery, Except Electrical	886,672	672,585	2,490,862	(24.1)	270.3
5	335	Electrical Equipment, Appliances, And Coi	1,088,544	1,636,967	2,312,946	50.4	41.3
6	313	Textiles And Fabrics	2,139,360	3,267,283	1,906,144	52.7	(41.7)
7	311	Food And Kindred Products	777,649	1,840,210	1,002,220	136.6	(45.5)
8	315	Apparel And Accessories	486,371	488,607	861,153	0.5	76.2
9	332	Fabricated Metal Products, Nesoi	417,685	1,322,018	770,994	216.5	(41.7)
10	325	Chemicals	1,064,616	185,211	728,316	(82.6)	293.2
11	321	Wood Products	237,273	48,490	681,623	(79.6)	1,305.7
12	326	Plastics And Rubber Products	142,712	330,006	619,628	131.2	87.8
13	327	Nonmetallic Mineral Products	1,878,605	262,540	451,471	(86.0)	72.0
14	331	Primary Metal Manufacturing	14,271	197,588	295,888	1,284.5	49.7
15	339	Miscellaneous Manufactured Commodities	182,258	311,285	196,730	70.8	(36.8)

These 15 sectors accounts for 99.4% 99.1% 98.9% of the Total

Source : US Census with adjustments made by the World Institute for Strategic Economic Research (Wiser), and SE-NAFTA.

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# Selected Readings

# N AFTA Related Events

## World Trade Review (Irwin, Douglas A. World Trade Organization and Cambridge University Press, July 2006)

The World Trade Review is an independent peer-reviewed journal that addresses trade issues from economic, legal, political, and interdisciplinary perspectives. The mission of the journal is to publish articles that deepen understanding of issues facing the international trading system through critical analysis and constructive debate.

## Technology, Adaptation, and Exports: How Some Developing Countries Got It Right (Vandana, Chandra. World Bank Press, July 2006)

The literature on technological change and growth has mainly used econometric models to establish that factors such as the degree of openness, skills, research and development expenditures, number of patents, etc. are critical determinants of innovation and its effect on growth, but fails to explain the role of institutions and policies that create the environment for innovation. This book examines how governments fostered technological adaptation through public-private partnerships to develop world-class exporters in high-growth, non-traditional industries.

## Anti-Corruption in Transition 3: Who Is Succeeding... and Why? (Anderson, James and Gray, Cheryl. World Bank Press, July 2006)

<http://www.docuticker.com/?p=6370>

This report is the third in a series of studies examining the patterns and trends in corruption in the former socialist economies of Europe and Central Asia over the last 16 years. The findings are promising: Extensive reforms in the region are reducing the opportunities for corruption and showing real results. There remain, however, important reasons to reinforce and even accelerate the reforms.

## Can Good Economics Ever Be Good Politics?: Case Study of India's Power Sector (Lal, Sumir. World Bank Press, June 2006)

<http://siteresources.worldbank.org/EXTDEVCOMMENG/Resources/finalpowersectorindiaebook.pdf>

This paper takes a look at the gap between strong pro-reform rhetoric at the political level and weak, hesitant implementation of reforms on the ground. Assuming that people and institutions respond to political and economic incentives, it explains how a lack of political will often reflects rational political behavior. It examines incentives, informal relationships, and interests that govern behavior to search for openings and opportunities for reformers.

## July 12 – 14

“PAACE Automechanika Mexico”  
México, D.F. – Centro Banamex

PAACE Automechanika is the largest trade show for the automotive aftermarket, OE Manufacturing and service industry in Mexico. Now in its 13th year, more of the “power brands” committed to exhibit at PAACE Automechanika Mexico 2006 are top 100 automotive aftermarket suppliers Cardone Industries, Inc., Holley Performance Group, Lund International, Technical Chemical Co., and Universal Automotive Industries' Autospecialty Division. Mexican subsidiaries of more of North America's top 100 aftermarket and/or top 150 OE suppliers round out the current list of exhibitors. These companies include: Bosch de México, Bujías NGK, Clevite de México, DESC Automotriz Comercializadora, Disogren Mexicana (Corteco México), Gates de México, Hellamex, Honeywell Bendix, KEM de México, PTX de México (Permatex), SKF de México, Tenneco Automotive, Tomco de México, ZF Sachs Powertrain México and ZF Sachs Suspensión México.

<http://www.automechanika.com>

## July 19 – 21

“Expo Eléctrica Internacional ACOMEE-CONACOMEE 2006”  
México, D.F. – Centro Banamex

This is one of the best business platforms in Latin America in the area of illumination, electrical material and electrical equipment. Here, manufacturers and importers will meet professional buyers from Mexico and other several countries. Visitors will also find the newest and state-of-the-art technologies to improve the efficiency in the electrical performance and consumption of industrial, commercial, and tourism facilities.

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

## August 15 – 19

“Exposición Nacional de Artículos de Regalo y Decoración Artesanal Mexicana (ENART)”

Tlaquepaque, Jalisco – Centro Cultural y de Exposiciones El Refugio

Mexican gifts and decorative handcrafts fair.

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

**A monthly newsletter on  
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