



NAFTAWorks



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Mexico implemented an import duties reduction plan

With the goal of reducing production costs for companies doing business in Mexico, the Ministry of the Economy published a decree that lowers duties for 6,089 items of the Import Tariff Code on September 29, 2006.

Another reason to implement the reduction is to eliminate tariff inconsistencies, such as instances where the final product had a lower import tariff than the input and the raw material. These situations have provoked producers to import finished products and have had a negative impact on investment levels, employment and exports of the country.

Before	After	# Items	Sector
20%	15%	37	Fabrics
15%	10%	2518	
15%	9%	45	Sintetic Fibers
10%	9%	43	Sintetic Fibers
10%	7%	3439	
7%	5%	4	Steel
10%*	7%*	3	Organic Chemicals

* Ad valorem + 0.36 dlis/kg

The adjustment applies only to inputs and raw materials for 18 sectors such as machinery and electrical equipment, chemical, steel and its products, automobiles and textiles.

Mexico reduced 6,089 items, which accounts for 53% of the 11,397 products in the Mexican import tariff classification. This reduction affects 63 of the 72 chapters of industrial products.

This measure doesn't include tariffs on consumption or agricultural goods.

In 2005, Mexico imported \$81.4 billion dollars in products included in the decree. This amount accounts for 37% of the \$221.4 billion dollars imported by Mexico.

Small and Medium Enterprises (SMEs) will be beneficiaries of this reduction. SMEs will be able to buy cheaper inputs and raw materials through their distributors.

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Mexico Economic Update

	Sep 2006		Jan-Sep 2006		Financial Indicators	Sep 2005	Sep 2006	Economic Growth	Aug 2005	Aug 2006
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %						
Foreign Trade					Inflation Rate (Jun/Jun)	3.5	4.1	Global Economic Activity Index (IGAE)	4.3%	4.2%
Exports	20.63	12.7	185.96	19.9	Interest Rate (CETES 28)	9.2	7.1	Industrial Activity		
Manufacturing	17.14	14.1	149.17	17.5	Stock Market Index (IPC)	15,393	21,400	Industrial Production	1.8%	5.6%
Oil	3.01	3.6	30.71	33.8	Exchange Rate (pesos/dollar)	10.78	10.99	Manufacturing	1.7%	5.3%
Imports	21.98	17.9	187.87	17.9	International Reserves (US bd)	62.8	67.3	Mining	3.0%	1.4%
Balance	-1.35	309.0	-1.91	-54.9	Employment			Construction	1.8%	7.1%
					Open Unemployment	3.70	3.98			

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

US bd= US billion dollar



Mexico is pursuing the tariff convergence with its trade partners. However, this cannot be obtained in a single stage. For this reason, Mexico has a strategy of doing this in a gradual way through an intermediate stage.

There are 3,774 products that are included in the Sectorial Programs (PROSEC), but the new duties are 2 or 3 times bigger than those paid by companies participating in the PROSEC. It would be necessary to carry out at least 2 similar reductions to arrive at the PROSEC tariff levels.

This decree will:

- Lower the production costs through cheaper inputs
- Foster employment and investment, avoiding business migration with competitive inputs.
- Promote tariff convergence with Mexico's main trading partners.
- Facilitate access to imported inputs for SMEs.
- Reduce inflation since import duties are a price reference.
- Improve Mexico's competitiveness index through more trade openness.
- Simplify trade transactions and reduce non-trade measures, therefore contributing to fight illegal practices (such as trans-shipment and contraband) and to reduce transaction costs.



Selected Readings

World Development Report 2006: Equity and Development (World Bank, September 2005)

This year's World Development Report (WDR), the twenty-eighth, looks at the role of equity in the development process. It defines equity in terms of two basic principles. The first is equal opportunities: that a person's chances in life should be determined by his or her talents and efforts, rather than by pre-determined circumstances such as race, gender, social or family background. The second principle is the avoidance of extreme deprivation in outcomes, particularly in health, education and consumption levels. This principle thus includes the objective of poverty reduction.

The report's main message is that, in the long run, the pursuit of equity and the pursuit of economic prosperity are complementary.

In addition to detailed chapters exploring these and related issues, the Report contains selected data from the World Development Indicators 2005—an appendix of economic and social data for over 200 countries. This Report offers practical insights for policymakers, executives, scholars, and all those with an interest in economic development.

NAFTA Revisited: Achievements and Challenges (Gary Clyde Hufbauer and Jeffrey J. Schott. Institute for International Economics, October 2005)

NAFTA entered into force in 1994 after a bitter Congressional debate. But NAFTA in operation has proved no less controversial than NAFTA before ratification, for both supporters and opponents of trade liberalization have cited experience with the agreement to justify their positions. To provide a factual basis for this ongoing debate, the authors evaluate NAFTA's performance over the first seven years, comparing actual experience with both the objectives of the agreement's supporters and the charges of its critics. They then examine future challenges and opportunities in the trade and investment relationships among the three partner countries and the broader implications for new trade initiatives throughout the hemisphere.

Diario Oficial Notices

◆ Final determination of the antidumping investigation on the Iron/non alloy steel, width 600mm+, hot-rolled flat-rolled products, w/patterns in relief, in coils, pickled, not clad/plated/coated. Merchandise currently classified under tariff item 7208.51.01, 7208.51.03 y 7208.52.01 of the Mexican Imports and Exports Tariff Law, that is from the Russian Federation or Ukraine, regardless of the shipping country. (September 21).

◆ Final determination of the anti dumping investigation on the hydraulic jacks and hoists imports. Merchandise, currently classified under tariff item 8425.42.02 of The Mexican Imports and Exports Tariff Law, that is from the People's Republic of China, regardless of shipping country. (September 23).

◆ Determination to the administrative procedure of revocation interposed by the Ferro Corporation against the final determination of the antidumping investigation on the stearic acid, ciclofosfamida and ifosfamida imports. Merchandise currently classified under tariff item 3823.11.01, 3823.19.99 and 2934.99.99 of The Mexican Imports and Exports Tariff Law, that is from the United States of America and regardless of shipping country. (September 23).

◆ Agreement by which it is modified its similar that establishes the criteria for granting preview permits by the Secretary of the Economy to the definitive imports of fructose, that are from the United States of America. (September 30).

◆ Agreement by which it is notified The First Additional Protocol to Appendix II on "Trade between Brazil and Mexico in the automotive sector", of the #55 Agreement on Economic Complementation and subscribed between the United Mexican States and the Republic of Argentina, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay, being these last four countries Member States of the Mercado Comun del Sur. (October 6).

◆ Agreement by which it is notified the 2005 Annex that establishes the Rules for allocation of the NAFTA minimum import quota remnant for 2005, of the agreement that notified the minimum quota for importing corn from the United States of America or Canada (except -for sowing) into Mexico during the 2004-2007 period, and in accordance with the tariff rate-quota established under the North American Free Trade Agreement. (October 7).



Capital: Tepic
 Main cities: Tepic, Santiago Ixcuintla, Compostela, Bahía de Banderas & San Blas

Population: 949,684 (2005)
 64% in the urban area
 62% under 30 years old
 34 persons per square kilometer

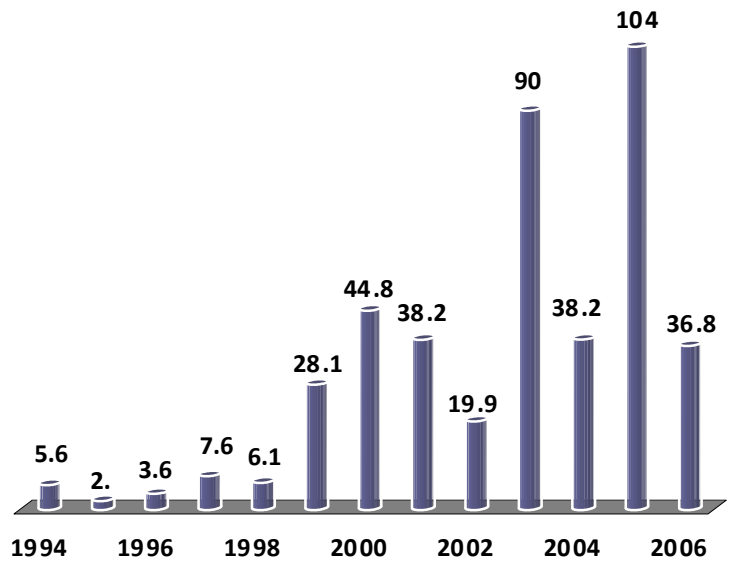
Education: 91% Literacy rate
 81,533 with more than High School
 3,914 Master or Ph.D

Household with : 15% Computers
 92% TV
 83% Refrigerators
 67% Washing Machine

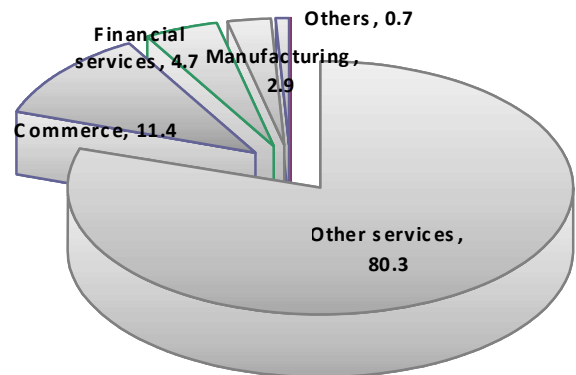
Infraestructure: 2,134 km of paved roads
 143 km of highways (4 lanes)
 28 Universities and technological institutes
 29 Hospitals
 166,132 Fixed telephone lines
 21 Radio stations
 9 TV stations

Exports: US \$29 Millions (2004)
 Imports: US \$16 Millions (2004)
 Maquiladora: 1 and employs 142 workers
 FDI Companies: 242

Foreign Direct Investment (Millions of US Dollars)

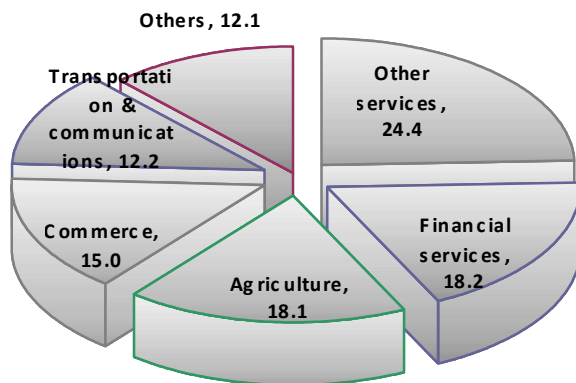


Foreign Direct Investment by Sector 94-05 (Percentage)



375.1 Millions of US Dollars

Gross Domestic Product 2004



Web-site: <http://www.sedeconay.gob.mx>
 E-mail: sde@nayarit.gob.mx
 Tel/Fax: 011 52 (311) 214 5951



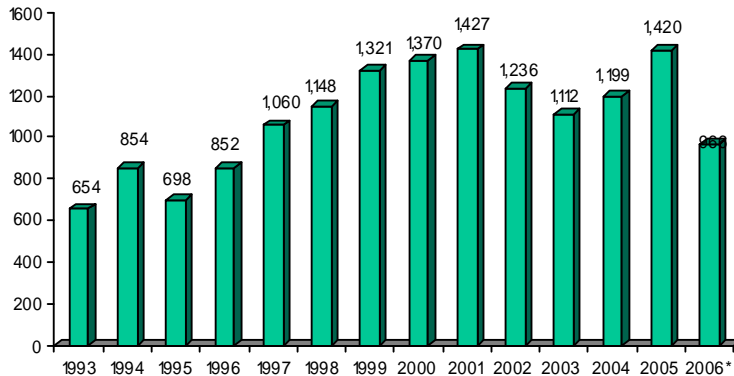
Pennsylvania

In 2005, Pennsylvania's exports to Mexico increased 117% in twelve years of NAFTA, while those to the Rest of the World rose 79%

Mexico is the second largest consumer market for Pennsylvania's exports

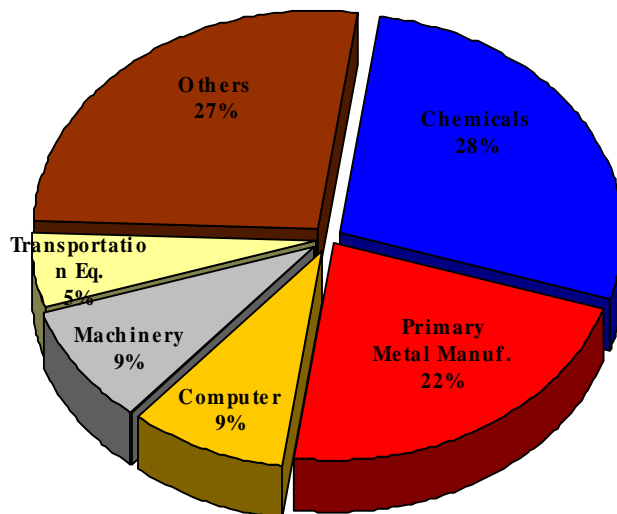
Exports to Mexico

1993-2006* (Millions of US Dollars)



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

Exports to Mexico By Sector (NAICS) 2006 2Q



Source: US Census, WISER and SE-NAFTA.

Success Stories

Union Fenosa to increase investment in Mexico

The Spaniard company Union Fenosa announced in March 2006 that it is planning to increase its investment in Mexico by 50% in the 2007-2012 term. Their strategy is creating a synergy between electricity and natural gas, in order to guarantee fuel supply. Their business plans include increasing their power generation capacity by 500 megawatts. In order for them to do this they will have to win a bidding war against other companies like Shell and Repsol to build Manzanillo re-gasification plant. Investments foreseen for the next five years amount to US\$600 million and up to now the company has invested US\$1.2 billion. Their strategic plan and primary sector is energy in spite of problems with contracts with the state-owned power generation company, Comision Federal de Electricidad (CFE). Union Fenosa has three electric plants that supply CFE with fluid through 25-year contracts.

Navistar produces a new model in Mexico

Navistar International's plant in Escobedo, Nuevo Leon will be manufacturing the model of an autobus called "Traveler." Designed for short distances between cities, it is a response to the need to renew the vehicles fleet in Mexico, to be made by passenger land transportation industry. The decision was based on the fact that it has capacity to double production. The assembler has invested US\$400 million in manufacture structures and a similar amount in financing portfolio. In addition it has invested more than US\$30 million in its spare-parts center.

Neapco LLC Chooses Saltillo Coahuila

Pottstown, Pennsylvania-based Neapco LLC will begin the manufacture of Double Cardan assemblies for drive shafts in Mexico in the first quarter of 2007. At the project's maturity, Neapco expects to double its manufacturing space and will employ approximately 100 workers. According to the company's EVP and General Manager. " We decided on the Saltillo location because of the skilled work force and support services that are abundant in the area. Neapco LLC also has facilities in Beatrice, Nebraska and Ontario, California. Its 525 employees provide customers with innovative drivetrain solutions through world-class product development, state of the art manufacturing and machining methods. The company supports both global OEM and aftermarket manufacturers..



N AFTA Related Events

October 18 – 20

“Expo Metalmecánica”

Guadalajara, Jalisco – Expo Guadalajara

This event is an exhibition of tools, equipment, materials, supplies and services used by the metal-working industry of Mexico.

<http://www.expometalmecanica.org/>

October 20 – 23

“11th Annual Manufacturing in Mexico Summit”

San Carlos, Sonora – San Carlos Plaza Hotel

The Offshore Group keeps prospective and existing clients current on issues that are critical to manufacturing in Mexico at its annual Manufacturing in Mexico Summit; join The Offshore Group at the largest gathering of top level manufacturing executives in Mexico. The 2005 event will be the “Summit’s” 11th consecutive year. 350+ individuals are expected to attend.

<http://www.offshoregroup.com/summit.asp>

October 26 – 30

“National Convention of the Exporting Maquiladora Industry”

Acapulco, Guerrero – Princess Hotel

This event is the 32nd national Convention of the Exporting Maquila Industry, titled “Global Vision of the Exporting Manufacturing.” Participants include Enrique Castro Sep-tián, Chairman of CNIME, René Juárez Cisneros, Governor of the State of Guerrero, and several members of the cabinet, such as Fernando Canales, Pedro Cerisola, Francisco Gil, as well as Ambassador Anthony Garza.

<http://www.cnime.org.mx/english/events/convention2005/program.htm>

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November 09 -11

VII Expo Internacional de Ductos Petroleros

Mérida, Yucatán –

The goal of this congress is to obtain the greater diffusion and inter-change of knowledge and experiences in the subjects of Security and Environmental Protection, Technologies of Vanguard and Quality, related to the transport and hydrocarbon distribution through pipes.

<http://www.canacero.org.mx/>

<http://www.alba.com.mx/html/expoductos.html>

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