



NAFTA Works



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US and Mexico Sign Trade Deal on Sweeteners

On July 27th, The United States and Mexico reached an agreement regarding sugar and sweetener trade. The deal, which replaces an older pact set to expire in September of this year, will ensure that both countries adhere to the standards laid out in the North American Free Trade Agreement (NAFTA), which require that all tariffs be eliminated by 2008. The recent agreement ends a tense standoff between the tens of thousands of cane growers and mill workers in Mexico and the powerful United States sweetener industry.

Significant damage to U.S. sugar producers caused by hurricanes Katrina and Rita contributed to America's decision to open its borders. The deal is also backed by the U.S. corn industry.

According to the agreement, Mexican sugar companies will be allowed to export 500,000 tons of sugar duty-free to the United States from October 1, 2006 to December 31, 2007, and any sugar traded above that quota will be taxed at the preferred NAFTA rate. In exchange, Mexico will allow American vendors to export an equal amount of high fructose corn syrup free from tariffs during the same period. Starting January 1, 2008, all quotas and tariff barriers on the trade of the two goods will be removed. In addition, Mexico will remove its tax on soft drinks, which has further slowed sales of high-fructose corn syrup from the U.S.

The full text of the agreement is reprinted below:

1. Sugar or Syrup Goods of Mexico.

(a) The United States shall accord duty-free treatment to an additional quantity of not less than 21,774 metric tons (raw value) of refined sugar of Mexico during the marketing year beginning in 2005.

(b) The United States shall accord duty-free treatment to:

(i) 250,000 metric tons (raw value) of sugar or syrup goods of Mexico during the marketing year beginning in 2006; and

(ii) subject to subparagraph (c), 250,000 metric tons (raw value) of sugar or syrup goods of Mexico during the first three months of the marketing year beginning in 2007.

(c) Mexico and the United States shall consult by July 1, 2007 to determine jointly, based on market conditions, whether the quantity under subparagraph (b)(ii) shall remain 250,000 metric tons (raw value) or shall be reduced to not less than 175,000 metric tons (raw value). If Mexico and the United States do not agree on the quantity by July 1, 2007, the quantity under subparagraph (b)(ii) shall be reduced to 175,000 metric tons (raw value).

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Mexico Economic Update

	Jul 2006		Jan-Jul 2006			Jul 2005	Jul 2006		Jun 2005	Jun 2006		
	Value (US bd)	Annual Change %	Value (US bd)	Annual Change %	Financial Indicators							
Foreign Trade					Inflation Rate (Jun/Jun)	4.5	3.1	↓	Global Economic Activity Index (IGAE)	1.2%	6.8%	↓
Exports	19.88	21.4	356.73	16.9	Interest Rate (CETES 28)	9.6	7.0	↓	Industrial Activity			
Manufacturing	15.98	20.8	288.65	13.8	Stock Market Index (IPC)	14,003	19,628	↑	Industrial Production	1.0%	6.9%	↓
Oil	3.38	22.4	55.75	37.2	Exchange Rate (pesos/dollar)	10.68	10.99	↑	Manufacturing	0.2%	7.5%	↓
Imports	20.20	18.1	364.10	14.7	International Reserves (US bd)	59.3	77.6	↑	Mining	0.9%	-0.9%	↓
Balance	-0.32	-55.7	-7.36	-39.1	Employment				Construction	3.5%	7.7%	↓
					Open Unemployment	3.63	3.32	↓				

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

US bd= US billion dollar



(d) The United States shall apply the NAFTA over-quota tariff rate in the relevant marketing year on amounts in excess of the duty-free quantities referred to in subparagraph (b). The United States confirms that the over-quota tariff rate will be eliminated effective January 1, 2008 as provided for in the NAFTA.

2. HFCS Goods of the United States.

(a) Mexico shall accord duty-free treatment to:

(i) 250,000 metric tons (dry solids basis) of HFCS goods of the United States during the marketing year beginning in 2006; and

(ii) subject to subparagraph (b), 250,000 metric tons (dry solids basis) of HFCS goods of the United States during the first three months of the marketing year beginning in 2007.

(b) Mexico and the United States shall consult by July 1, 2007 to determine jointly, based on market conditions, whether the quantity under subparagraph (a)(ii) shall remain 250,000 metric tons (dry solids basis) or shall be reduced to not less than 175,000 metric tons (dry solids basis). If Mexico and the United States do not agree on the quantity by July 1, 2007, the quantity under subparagraph (a)(ii) shall be reduced to 175,000 metric tons (dry solids basis).

(c) Mexico shall eliminate any duties on amounts in excess of the duty-free quantities referred to in subparagraph (a), including those established in Decreto por el que se modifican diversos aranceles de la Tarifa de la Ley del Impuesto General de Importación published in Diario Oficial de la Federación on October 11, 2001 and any other relevant measures, effective January 1, 2008.

3. Sugar and Syrup Goods of the United States. In accordance with NAFTA Annex 703.2, paragraph 14, Mexico shall accord duty-free treatment to a quantity of sugar or syrup goods of the United States of not less than 7,258 metric tons (raw value) in each of the marketing years beginning in 2005 and 2006, and in the first three months of the marketing year beginning in 2007. Mexico confirms that any over-quota tariff rate will be eliminated effective January 1, 2008 as provided for in the NAFTA.

4. Import Licensing on HFCS Goods of the United States. Mexico shall apply the import licensing procedures set out in the ACUERDO que modifica el diverso que establece los criterios para otorgar permisos previos por parte de la Secretaría de Economía, a las importaciones definitivas de fructosa originarias de los Estados Unidos de América published in Diario Oficial de la Federación on November 11, 2005, and the ACUERDO que modifica el diverso que establece los criterios para otorgar permisos previos por parte de la Secretaría de Economía, a las importaciones definitivas de fructosa originarias de los Estados Unidos de América published in Diario Oficial de la Federación on September 30, 2005, or any successor measures that provide substantially the same licensing procedures, to imports of HFCS goods of the United States under the duty-free tariff-rate quotas described in paragraph 2. Mexico shall not apply import licensing procedures on imports of HFCS goods of the United States effective January 1, 2008.

5. Import Licensing on Sugar or Syrup Goods of the United States. Mexico shall establish and apply bilaterally agreed import licensing procedures for imports of sugar or syrup goods of the United States under the duty-free tariff-rate quotas described in paragraph 3. Mexico shall not apply import licensing procedures on imports of sugar or syrup goods of the United States effective January 1, 2008.

6. Beverage tax. Mexico and the United States confirm that on July 3, 2006 they submitted a joint letter to the WTO Dispute Settlement Body (WT/DS308/15) expressing their agreement that Mexico shall eliminate its tax measures on soft drinks and other beverages no later than January 1, 2007, except that if the Mexican Congress approves the necessary legislation to eliminate these measures during the month of December 2006, Mexico shall eliminate its tax measures on soft drinks and other beverages no later than January 31, 2007.

7. Standstill. Except as provided in this agreement or permitted under other agreements to which both countries are party, Mexico shall not limit, directly or indirectly, imports of HFCS goods of the United States into Mexico, and the United States shall not limit, directly or indirectly, imports of sugar or syrup goods of Mexico into the United States, including through the application or imposition of any tax or other internal measure that has the effect, directly or indirectly, of discriminating against HFCS goods of the United States or sugar or syrup goods of Mexico, as the case may be.

8. Consultations and dispute settlement. Mexico and the United States recognize that there are ongoing disputes concerning trade in sweeteners, which have not been resolved, and that this agreement contributes to finding a resolution to those disputes. Mexico and the United States further recognize that this agreement will facilitate an orderly transition to full tariff elimination on sugar and syrup goods and HFCS goods on January 1, 2008. Mexico and the United States shall continue to consult on trade in sweeteners with a view toward facilitating that transition, further liberalizing trade in such goods, and making further progress on the issues underlying those disputes.

9. Task force. Mexico and the United States shall establish a joint industry/government task force to assist the governments to prepare for tariff elimination on sugar or syrup goods and HFCS goods in January 2008 and to periodically review shipments of sugar or syrup goods and HFCS goods with a view toward ensuring prompt and full utilization of the tariff-rate quotas described in paragraphs 1 through 3.

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Success Stories

10. Definitions. For purposes of this agreement:

duty-free shall have the meaning given to that term in Article 708 of the NAFTA;

high fructose corn syrup good or HFCS good means a good provided for in any of the current tariff items 1702.40.99, 1702.60.01, 1702.60.02, and 1702.60.99 of Mexico's General Import and Export Duties Act ("Ley de los Impuestos Generales de Importación y Exportación") that is an originating good;

marketing year means a 12-month period beginning October 1;

NAFTA means the North American Free Trade Agreement;

originating shall have the meaning given that term by Article 201 of the NAFTA;

raw value shall have the meaning given to that term in paragraph 26 of Section A of Annex 703.2 of the NAFTA;

refined sugar means sugar whose content of sucrose by weight, in the dry state, corresponds to a polarimeter reading of 99.5 degrees or greater; and

sugar or syrup good shall have the meaning given to that term in Section C of Annex 703.2 of the NAFTA.

Kenworth Mexicana injects money into its plant in Mexico

Kenworth Mexicana announced it had invested US\$78 million in the last 14 months to increase its production volume from 40 to 60 units per day. This has allowed Mexico to receive US\$5 billion in direct investment, forecasted to reach US\$20 billion by the end of the year. Expanding by 301,388 square feet for the assembly of vehicles, this plant is number one in quality among the company's nine worldwide.

Bridgestone will invest in a new black coal processing plant

Bridgestone announced an investment of US\$81 million in Mexico to build a new black coal processing plant. It will be operated by Mexico Carbon Manufacturing, a subsidiary of Bridgestone, in Altamira Port in the northern state of Tamaulipas. Production is estimated to reach around 35,000 tons of black coal per year and will offer 100 jobs when operations start in June of 2008. This is third Bridgestone plant to produce black coal; the other two are in Thailand and Japan. The company is trying to strengthen and reinforce its production and distribution systems.

Honeywell will manufacture aircraft components in Chihuahua

The US Company Honeywell Aerospace announced its decision to establish a plant in Chihuahua City to manufacture structures, static components, and gears for airplane turbines. The company will invest more than US\$40 million to build on a 200 square foot plot in the Chihuahua Sur Industrial Park with the hope of an increase to US\$80 million within three years. The plant is predicted to employ over 350 specialized technicians and administrative staff in the next 24 months. Construction began in the first semester of 2006.

Mahle injects millions in its Puebla plant

The German company Mahle will be investing US\$20 million in its Puebla plant to guarantee its permanence over the next ten years. Mahle began operating in Mexico in 1998 with total annual sales of US\$5 million. In 2002, sales reached US\$25 million, and they currently amount to US\$30 million. Mahle supplies 130 direct jobs and 300 indirect jobs and plans to grow in Puebla up to the year 2010, with a goal of US\$80 million in sales.

Celestica to increase capacity in Apodaca facilities

Celestica announced the plan to invest MEP\$500 million in Nuevo Leon over the next 12 months in order to increase capacity in its Apodaca facilities. This company, devoted to the production of electric components, will generate 1,000 new jobs. Celestica began its operations in Nuevo Leon 8 years ago and now has four industrial buildings in Nuevo Leon and two in Reynosa, Tamaulipas. In Nuevo Leon alone, the plant went from 2,500 to 6,000 employees in only 6 months as of last August.



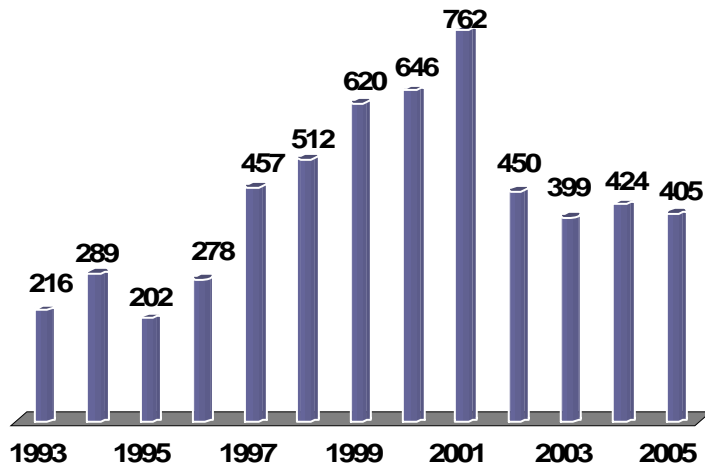
Virginia

Between 1993 and 2005, Virginia's exports to Mexico grew at an annual rate of 5%

Mexico is the eighth largest consumer market of Virginia's exports

Exports to Mexico

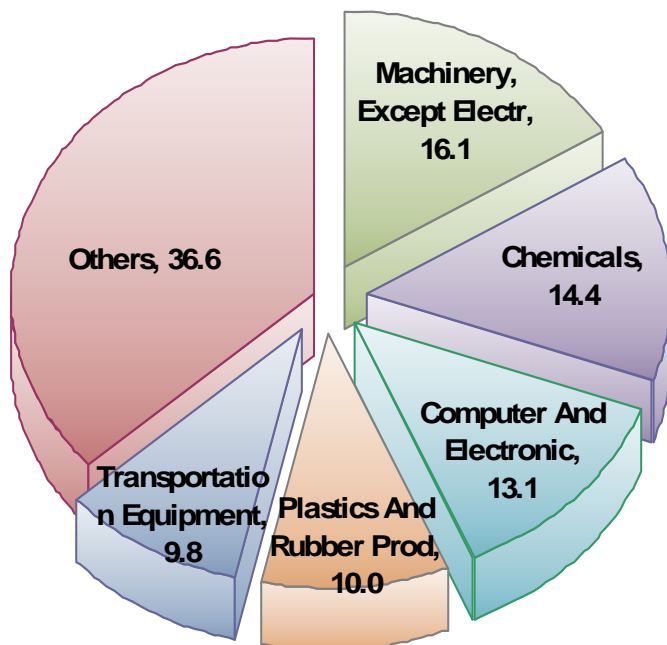
1993-2005 (Millions of US Dollars)



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

By Sector (NAICS)

2005



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

N AFTA Related Events

August 15 – 19

“Exposición Nacional de Artesanías (ENART)”

Tlaquepaque, Jalisco – Centro Cultural y de Exposiciones El Refugio

Mexican handcrafts trade fair

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

August 30 – September 01

“Expo Internacional RUJAC 2005”

Guadalajara, Jalisco – Expo Guadalajara

This is the XXII international show of the auto-parts industry. In this event, providers can display spare parts and components as well as original equipment used in this industry.

<http://www.rujac.com>

September 19 – 21

“ANTAD Expo Retail”

México, D.F. – Centro Banamex

This event is an ideal forum to display and get to know products and/or services that support the operative efficiency of the supply chain in the areas of: technological solutions, administration of spaces, furniture and store provisions, internal consumption, transportation, mail, storage, construction of distribution centers, packing, real state consulting, quality control, etc.

<http://www.antad.org.mx/exporetail/>

<http://www.centrobanamex.com>

September 19 – 21

“Mercancías Generales 2005 ANTAD”

México, D.F. – Centro Banamex

This event reunites suppliers of departmental stores and supermarkets where general merchandise related to the area of home appliances and electronics is sold.

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

<http://www.centrobanamex.com>

NAFTA WORKS FOR



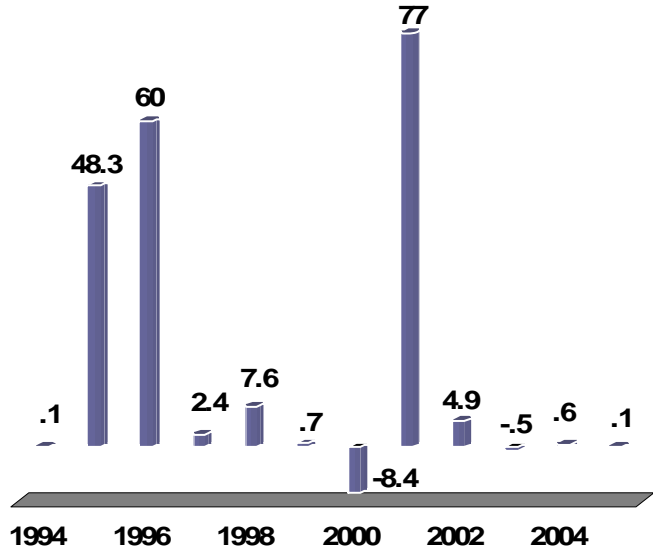
Hidalgo



Exports: US \$215 Millions (2004)
Imports: US \$236 Millions (2004)

FDI Companies: 72

Foreign Direct Investment (Millions of US Dollars)



Capital: Pachuca
Main cities: Pachuca, Tulancingo, Atocpan, Ciudad Sahagun, Atotonilco

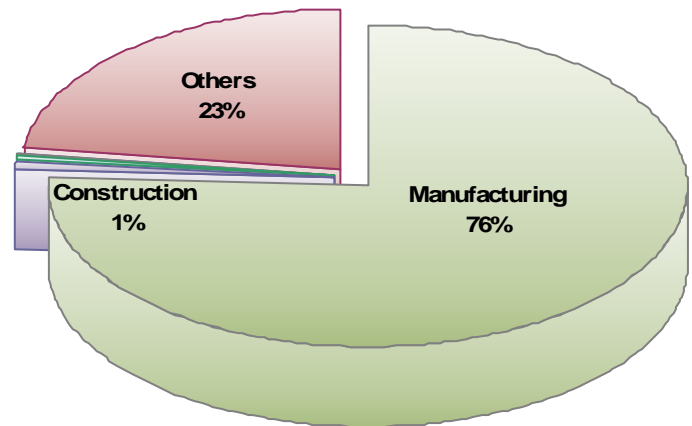
Population: 2,345,514 (2005)
49% in the urban area
62% under 30 years old
108 persons per square kilometer

Education: 85% Literacy rate
150,747 with more than High School
6,455 Masters or Ph.D.

Households with: 13% Computers
84% TVs
64% Refrigerators
41% Washing Machines

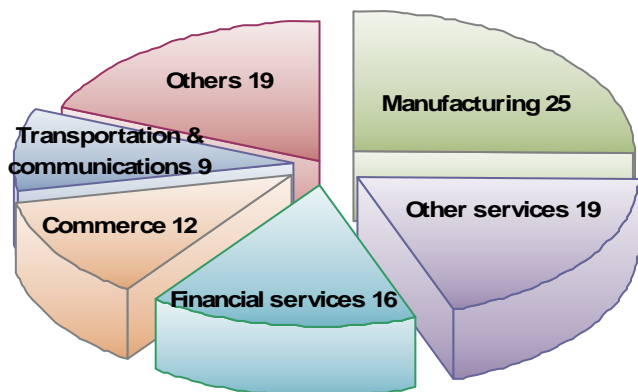
Infrastructure: 6,260 km of paved roads
307 km of highways (4 lanes)
64 Universities and technological institutes
91 Hospitals
262,083 Fixed telephone lines
22 Radio stations
10 TV stations

Foreign Direct Investment by Sector 94-05 (Percentage)



192.5 Millions of US Dollars

Gross Domestic Product 2004



Web-site: <http://www.hidalgobusiness.com>

E-mail: sedeco@hidalgo.gob.mx

Tel/Fax: 011 52 (771) 717 8000

011 52 (771) 717 8112



Diario Oficial Notices

- ◆ Agreement declaring free of swine fever the states of Aguascalientes, Colima, Guajalajara, Jalisco, Michoacan, Queretaro, San Luis Potosi and Zacatecas. (July 8).
- ◆ Decree by which a tax concession is granted for the importation and sale of juices, nectars and other beverages. (July 19).
- ◆ Agreement through which the Ministry of the Economy has issued general rules and practices on foreign trade. (July 21).
- ◆ Decree by which certain provisions of the Federal Law on Metrology and Standardization and the General Law on Corporations are amended. Decree that modifies several duties of the Mexican Import and Export Tariff Law. August 17. (July 28).
- ◆ 01/08/06 GENERAL RULES regarding the services and operations to be carried out by insurance and bailing (fianzas) institutions and third parties or companies described in Article 68 of the General Law on Insurance Companies and Article 79 of the Federal Law on Bailing Institutions. Agreement by which it is notified the quota for importing several merchandises classified under the Chapter 95 of the Mexican Imports and Exports Tariff Law. (August 18). (August 1).
- ◆ THIRD RESOLUTION containing the modifications to the Fiscal Resolution for 2006 and its annex 1. (August 2).
- ◆ GENERAL RESOLUTION number 7 specifying an update of the total value of assets referred to in Article 9 of the Foreign Investment Law. (August 7).
- ◆ Organic Statute of Telecomunicaciones de México. (August 14)

Selected Readings

Accelerating the Globalization of America: The Role for Information Technology (Mann, Catherine L. Institute for International Economics, June 2006)

Information technology (IT) was key to the superior overall macroeconomic performance of the United States in the 1990s—high productivity, high growth, low inflation, and low unemployment. But IT also played a role in increasing earnings dispersion in the labor market, greatly rewarding workers with high education and skills. This US performance did not happen in a global vacuum. Globalization of US IT firms promoted deeper integration of IT throughout the US economy, which in turn promoted more extensive globalization in other sectors of the US economy and labor market. How will the increasingly globalized IT industry affect US long-term growth, intermediate macro performance, and disparities in the US labor markets? What policies are needed to ensure that the United States remains first in innovation, business transformation, and education and skills, which are prerequisites for US economic leadership in the 21st century? This book traces the globalization of the IT industry, its diffusion into the US economy, and the prospects and implications of more extensive technology-enabled globalization of products and services.

Delivering on Doha: Farm Trade and the Poor (Elliott, Kimberly Ann. Institute for International Economics, July 2006)

Agricultural market liberalization is essential in achieving a successful Doha Round agreement because these are the most protected markets remaining in most rich countries. But the implications for developing countries, especially the poorest, are more complex than the current debate suggests. This volume examines the structure of agricultural support in rich countries and explores the challenges as well as opportunities that developing countries might face if the Doha Round succeeds in reforming OECD agriculture policies.

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