8-4-2004

Mexico Joins Mercosur as Associate Member

LADB Staff

LADB Article Id: 52331
ISSN: 1054-8890

Mexico Joins Mercosur as Associate Member

by LADB Staff
Category/Department: Mexico
Published: 2004-08-04

Mexico has taken a significant step to expand its political, commercial, and financial relations with South America through its new status as an associate member of the Southern Cone Common Market (MERCOSUR). The South American trade bloc comprising Brazil, Argentina, Uruguay, and Paraguay voted to accept associate memberships from Mexico and Venezuela in early July.

The two countries join other MERCOSUR associate members Chile, Peru, and Bolivia. Associate members have access to preferential trade but not to tariff benefits of full members. Differences regarding tariffs are one of the main factors preventing Chile, Mexico, and the other associate members from seeking full membership in MERCOSUR.

The four original MERCOSUR members use a common external tariff (tarifa externa comun, TEC) that is much higher than the tariffs imposed by Mexico and Chile. Mexican Economy Secretary Fernando Canales Clariond said the associate membership creates another avenue for Mexico to maximize its trade relationships with individual members of MERCOSUR. President Vicente Fox's administration has negotiated a trade agreement with Uruguay, which went into effect just days after Mexico's associate membership in MERCOSUR was accepted.

The agreement, signed in November 2003 and ratified by the Mexican Senate in April 2004, is the only bilateral trade accord with any of the MERCOSUR members (see NotiSur, 2004-05-14). Mexico, however, completed a comprehensive tariff-reduction agreement with Brazil in 2002 (see SourceMex, 2002-06-19). The effort to expand commercial relations with MERCOSUR is an attempt by the Fox government to diversify the country's trade partners and rely less on the US.

The four MERCOSUR countries represent a potential market of about 215 million consumers, using 2002 population figures. Still, the Mexican private sector views the expansion of trade relations with the South American trade bloc with caution.

In recent comments to the Fox government, the country's principal export-import organization (Asociacion Nacional de Importadores y Exportadores de la Republica Mexicana, ANIERM) urged that any commercial agreement should ensure that Mexican products gain some preferential access in South American markets.

The Consejo Nacional Agropecuario (CAP) has asked that the Fox government leave out agricultural products in any future agreements with the MERCOSUR countries. Beyond the trade benefits, Fox said the MERCOSUR associate membership would help Mexico increase its political cooperation not only with the MERCOSUR nations but also with other countries in Latin America. He said this was especially the case in situations where Latin American countries had to forge a common position to safeguard the interests of the region.

LADB Article Id: 52331
ISSN: 1054-8890

In a press conference, Fox told reporters that Latin America could become a strong player in global affairs if countries like Mexico, Argentina, Brazil, and Chile joined forces. "[Mexico] is already a strong voice that is heard around the world, and that is one of reasons we are forging an alliance with MERCOSUR," Fox said.

Building on Chile accord

The move to expand trade relations with MERCOSUR would build on Mexico's growing commercial relationship with Chile. The two countries originally signed a limited free-trade agreement in January 1992, but expanded the accord in 1999 to make it more compatible with the North American Free Trade Agreement (NAFTA) and other multilateral agreements (see SourceMex, 1998-03-25 and 1999-07-28).

The expanded agreement, now five years old, has allowed bilateral trade to increase by 35% to US $1.4 billion in 2003. The trade balance during this period, however, has significantly favored Chile. Mexican imports of Chilean products since 1999 have increased by more than 58% to almost US $1.1 billion, while exports to Chile have declined sharply to US$350 million. Mexico is trying hard to reverse the trend by attempting to place products in the Chilean market that have never been exported to that country.

In February of this year, Mexico sent its first shipment of avocados to Chile. This was the first of several weekly shipments of 45 kg to 50 kg of avocados during the first quarter of the year. The avocados originated in Michoacan, the primary supplier of the fruit to the US market (see SourceMex, 1996-10-16 and 1997-02-05).

Mexico, South American countries cooperate on energy

Outside of the trade agreements, Mexico is exploring energy-related initiatives with partners in South America. Mexico's state-run oil company PEMEX, for example, has forged a working relationship with Brazilian counterpart PETROBRAS. The two companies are considering a proposal to use PETROBRAS technology to help PEMEX gain access to deep-water reserves of crude oil in the Gulf of Mexico. Additionally, PETROBRAS and PEMEX are exploring a partnership to produce ethanol, which would be used as an additive in gasoline sold in the Mexican market. Brazil developed the technology to produce ethanol from sugar cane and now the gasoline sold in Brazil contains 5% ethanol.

The development of an ethanol industry would help Mexico's beleaguered sugar industry, which has been facing a crisis as a result of high debt, low global prices, and competition from imports of US corn syrup (see SourceMex, 2001-09-05, 2003-06-11 and 2004-07-14). "Now we want to see how we go forward on the ethanol route, a fuel that does not pollute and has a double advantage," Fox said after a meeting with Brazilian President Luiz Inacio Lula da Silva in mid-July.

Mexico is also looking to South America, especially Bolivia, to help alleviate a shortage of natural gas. Mexico has ample supplies of natural gas in the Burgos Basin in northeastern Mexico, but is unable to access these reserves because of a lack of capital and technology. The Fox administration has attempted to resolve this situation by offering multiple-services contracts (contratos de servicios

LADB Article Id: 52331
ISSN: 1054-8890

multiples, CSM) to foreign companies to explore and develop the reserves, but the plan has met with strong opposition in Congress (see SourceMex, 2004-01-28).

The uncertainty about gaining access to the gas in the Burgos Basin in the near term has made imports of Bolivian gas an attractive alternative for the Fox administration (see SourceMex, 2004-01-28). The problem was that until recently the Bolivian government was unable to negotiate any sales agreements because of discontent among the Bolivian people about a controversial natural-gas export scheme promoted by former President Gonzalo Sanchez de Lozada (see NotiSur, 2003-10-24).

Bolivian President Carlos Mesa appears to have solved the problem, at least in the near term, by winning a referendum in mid-July basically giving him the green light to proceed with exports of natural gas (see NotiSur, 2004-07-30). Less than a week after the referendum, Bolivian Foreign Minister Juan Ignacio Siles and Minister of Hydrocarbons and Mines Guillermo Torres traveled to Mexico City to begin discussions on a plan to export natural gas to Mexico.

Alfredo Elias Ayub, director of Mexico's Comision Federal de Electricidad (CFE), said Mexico is looking to acquire 500 million cubic feet of Bolivian gas per day, beginning in 2008. Bolivia's neighbor Peru is also seeking to supply Mexico with natural gas. Peruvian Energy and Mines Minister Jaime Quijandria said his country is negotiating an agreement with the Fox government to sell Mexico 600 million cubic feet per day of natural gas, beginning in late 2007. "The idea is for Mexico to become the principal destination of [Peru's] gas exports," said Quijandria.

Mexico's TELMEX continues rapid expansion in South America

Commercial and financial opportunities in South America are also increasing for Mexican telecommunications giant TELMEX, which has expanded aggressively into various markets in South America in recent years. The South American market has provided TELMEX ample opportunities for growth that are not found in the Mexican domestic market. TELMEX already controls more than 95% of Mexico's local telephone market and accounts for 70% of the country's long-distance calls.

TELMEX's revenue has fallen or remained flat for the last nine quarters. The company made a big splash with the purchase of the Brazilian and South American operations of US-based AT&T in November 2003 (see SourceMex, 2003-11-05). In March of this year, TELMEX expanded further in the South American country with the acquisition of the share of US-based MCI in Brazil's giant telecommunications company Embratel (SourceMex, 2004-03-24). The Mexican telecommunications giant continued its conquest of the South American market in June with the purchase of almost all shares of ChileSat, one of Chile's leading provider of long-distance telephone service.

TELMEX already owned about 40% of ChileSat before the purchase. TELMEX officials said they want to merge ChileSat and the AT&T Chile operations into one company that would be known as TELMEX Chile. TELMEX has also moved aggressively into the Uruguayan market, seeking to invest about US$50 million in that country's cellular-telephone industry through TELMEX subsidiary America Movil. TELMEX and its main competitor in South America, Telefonica de Espana, have both submitted bids to gain concessions to the telephone bands auctioned by the Uruguayan government this year.

LADB Article Id: 52331
ISSN: 1054-8890

In early August, TELMEX completed the purchase of Argentina's Metrored, one of the country's leading providers of data transmission and Internet services. TELMEX acquired the Argentine company through two of its subsidiaries, DATA Argentina LLC and Latam Telecomunicaciones LLC. The transaction has been approved by Argentina's Communications Secretariat but is awaiting clearance by the country's antitrust agency. The purchase of Metrored adds to TELMEX's growing hold on the Argentine telecommunications market. The company already owns cellular-telephone company CTI Movil, a majority of data-services firm Techtel, and AT&T Argentina, which has been renamed TELMEX Argentina SA.

TELMEX has also diversified its holdings in Brazil, taking steps to acquire a share in Brazil's largest cable television network Globo Comunicacoes e Participacoes (Globopar) and also the Internet company NET. The transaction, which could be finalized by the end of the year, would give Globopar's owner, the Marinho family, much-needed cash to meet its debt obligations. "The deal raises cash for Globopar's restructuring, brings a strategic investor to NET and puts it in a position to continue growing," Globopar officials said. (Sources: Agencia de noticias Proceso, 02/19/04; Notimex, 02/19/04, 07/06/04; Agence France-Presse, 06/14/04, 07/06/04; Milenio Diario, 06/29/04, 07/07/04; Reuters, 05/14/04, 06/02/04, 07/08/04; Associated Press, 07/08/04; Petroleumworld, 07/12/04; The Herald-Mexico City, 06/29/04, 07/15/04, 07/19/04; United Press International, 07/22/04; Reuters, 07/23/04; La Cronica de Hoy, 06/07/04, 06/10/04, 06/29/04, 07/06/04, 07/15/04, 07/27/04; La Jornada, 05/10/04, 06/29/04, 07/15/04, 07/21/04, 07/28/04; Spanish news service EFE, 07/06/04, 07/10/04, 07/20/04, 07/28/04; Dow Jones news service, 08/02/04; El Universal, 06/29/04, 07/06/04, 07/07/04, 07/21/04, 08/04/04)

-- End --