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Mexico Cements Relations With Chile; Dispute Emerges On Rice Imports From Uruguay

by LADB Staff

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Mexico's trade relations with two South American countries have gone in different directions in the past few weeks. Commercial relations appear to be strengthening with Chile, with the two countries committed to expanding their bilateral agreement, which has been in place for 10 years. Mexico's relations with Uruguay, however, appear to have hit a bump in the road because of a dispute regarding Mexican imports of Uruguayan rice. Mexican producers are complaining that Uruguay is shipping rice to Mexico at below-market prices, which threatens to undermine Mexico's rice industry.

Calderon, Bachelet seek to expand trade agreement

Mexico and Chile moved to fortify their commercial relations during a visit by Chilean President Michelle Bachelet to Mexico City in late June. Bachelet and Mexican counterpart Felipe Calderon agreed to explore ways to increase the scope of their bilateral trade agreement. In 1999, the two countries implemented an expanded trade agreement that was more in line with the North American Free Trade Agreement (NAFTA), building on a series of accords signed during the 1990s (SourceMex, December 18, 1991 and January 26, 1994). The expanded accord increased the number of categories of products eligible for tariff reductions and added sections dealing with rules of origin, dispute-resolution mechanisms, and health codes for animals and plants (SourceMex, March 25, 1998 and July 28, 1999).

Since the expanded accord went into effect, trade between Mexico and Chile has tripled to about US \$4 billion. "Even though this is an important increase, we believe that that the total does not reflect the true potential for trade, given the size of our economies," Calderon said at a press conference. In particular, Calderon mentioned the potential increase in trade after the world emerges from its current economic crisis. "We look forward to the opportunities that will present themselves once the economic recovery begins," said the Mexican president.

Bachelet noted that there is opportunity even in the current environment. "We agree with President Calderon that the best solution during times of crisis is to offer initiatives that make commercial exchanges easier," said Chilean president. "We must do this before protectionism emerges again." The two leaders also discussed possibilities for cooperation in security and, in particular, in the fight against organized crime and drug trafficking. A key area of cooperation in this regard is a reform of the judicial system, with Chile sharing its recent successes with oral trials.

During a reform of the judicial system, Mexico decided to implement oral trials to substitute for written verdicts. This allows defendants to face their accusers in a public court (SourceMex, March 12, 2008). Mexico and Chile also exchanged information about their approaches to responding to the

H1N1 virus. The outbreak was first reported in Mexico in April of this year, forcing the government to take extreme measures (SourceMex, May 06, 2009 and May 13, 2009).

The number of cases reported in Mexico subsided during the summer months in the Northern Hemisphere. At the same time, the number of cases surged in South America with the arrival of winter in the Southern Hemisphere. The most recent statistics from the World Health Organization (WHO) indicate that 138 victims of the H1N1 virus have been reported in Mexico this year and 79 in Chile. The number has surged to 165 victims in Argentina.

During her visit to Mexico, Bachelet promised to strongly consider Calderon's proposal to create a special fund at the global level to respond to health emergencies such as the H1N1 virus. Multilateral financial institutions would manage the fund. "During this era of globalization, the only way to face and resolve global problems is with common solutions, developed on the basis of international cooperation," Bachelet told reporters in Mexico City.

Producers say Uruguay selling rice at below international price While Chile and Mexico appeared to be cementing their trade relations, some minor cracks appeared in Mexico's commercial relations with Uruguay. Mexico and Uruguay have a bilateral tariff-reduction agreement signed in 2003 and ratified by the Mexican Senate in 2004 (SourceMex, August 04, 2004). The agreement went into effect just months before Mexico became an associate member of the Southern Cone Common Market (MERCOSUR).

In mid-July, Mexican agricultural producers accused Uruguay of sending contaminated rice to Mexico and selling it at below-market prices. Members of the Federacion Nacional de Productores de Arroz (FENAPARROZ) initially said shipments of rice entering Mexico from Uruguay were substandard. The FENAPARROZ charges brought denials from Uruguayan officials. Jose Ignacio Korzeniak Pastorino, Uruguay's ambassador to Mexico City, said his country only exports high-quality rice to its customers, which include the European Union, Brazil, Iran, Japan, South Africa, and Canada. Furthermore, Korzeniak said, officials at Mexico's Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria de Mexico (SENASICA) have confirmed that rice imported from Uruguay conforms to Mexican sanitary standards.

SENASICA is the food-inspection division of the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA). "I am confident that we will overcome this misconception, whether it was caused by bad intention or by a lack of correct information," said Korzeniak. The Uruguayan government's denials prompted FENAPARROZ officials to backtrack on their accusations. "We have no conflict with Uruguay regarding any product being contaminated or in a bad state," said Pedro Alejandro Diaz Hartz, president of the organization. "Rather, our conflict is with the low prices at which the rice is being sold in Mexico." Diaz Hartz said wholesalers pay 7.40 pesos (US\$0.56) per kg for Uruguayan rice, compared with the going price of between 9.50 to 10.50 pesos (US\$0.72 to US\$0.79) per kg for domestic rice. "The rice is coming into the country at prices way below our domestic rates, and we are unable to compete under these conditions," said the FENAPARROZ president. Diaz Hartz said the importation of cheap rice from Uruguay comes in the middle of the harvest season for producers in Veracruz, Nayarit, Michoacan, and Campeche states, which intensifies the impact of the low-cost imports. He said the lower prices give the food

companies an excuse to reduce the price that they are willing to pay to Mexican producers. But the FENAPARROZ leader also lashed out at the food companies that buy the imported rice, pointing out that they pocket the savings without passing them on to the consumer.

Uruguayan producers say US imports to blame

Uruguayan producers acknowledged that their rice was selling at a lower cost in Mexico than on the international market but also asked FENAPARROZ to put the situation into perspective. Tabare Aguirre, president of Uruguay's Asociacion de Cultivadores de Arroz (ACA), said he believed Mexican producers had targeted Uruguay because they were unable to take action against massive imports from the US, which are covered under the North American Free Trade Agreement (NAFTA). "I can understand how a rice producer feels," Aguirre told the Montevideo newspaper El Pais. "But I believe Mexican producers are pointing the finger in the wrong direction. Their problem lies with the 700,000 tons of rice that come from the US and not the 3,000 tons imported from Uruguay." Korzeniak also urged FENAPARROZ to consider the full picture, since Uruguayan rice accounts for about 0.3% of Mexico's total rice imports. "In the past year, Uruguay exported only about US\$383,000 worth of rice to Mexico," said the Uruguayan ambassador.

There was no immediate public reaction from the Calderon administration to the Uruguayan rice controversy, although the SAGARPA Web site carried Diaz Hartz's comments regarding the danger of cheap imports to Mexican rice producers and also backtracking on the allegations that Uruguayan rice was contaminated. Beyond the current situation, FENAPARROZ has urged the Mexican government to take long-term actions to keep rice production viable in Mexico, including introducing new technology and improving the quality of the rice crop grown in Mexico.

The goal, said the organization, is for Mexican producers to supply the majority of the rice consumed in Mexico. Mexico now imports 80% of the rice consumed in the country, up from 65% in 2000. Without government action, said FENAPARROZ, the number of producers will continue to dwindle. The organization said there are now only 6,000 producers in Mexico, down from about 25,000 rice growers in 1988. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 29, 2009, reported at 13.26 pesos per US\$1.00]

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