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Mexico, Chile Reach Agreement on Beef Inspections Ahead of Pacific Alliance Meeting in Colombia

by Carlos Navarro

On May 21, the governments of Chile and Mexico signed a memorandum of understanding that committed the two countries to harmonize their meat-inspection procedures, a move that could eventually lead to an increase in exports of Mexican meat to the South American country.

The measure, while insignificant on its own, was an important symbolic step in consolidating commitments by Chile and Mexico before the Seventh Pacific Alliance (Alianza del Pacífico) Summit in Cali, Colombia, on May 23 (NotiCen, May 30, 2013). At the summit, the two presidents, Enrique Peña Nieto of Mexico and Sebastián Piñera of Chile, met with counterparts Juan Manuel Santos of Colombia and Ollanta Humala of Peru.

The meat-inspection agreement signed by Chilean Agriculture Minister Luis Mayol Bouchon and Mexican Agriculture Secretary Enrique Martínez y Martínez represents the commitment of the two countries to remove nontariff trade barriers for agricultural products. Martínez y Martínez said that the agreement—signed by Mexico’s Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria (SENASICA) and Chile’s Servicio Agrícola y Ganadero (SAG)—would establish quality-control parity between the two nations, clearly defining classification of different cuts and meat products.

The two sides also agreed to develop mechanisms for SENASICA and SAG to exchange technical information, research, and training methods used in the inspection process at points of entry in each of the two countries.

The agreement is expected to help open up the Chilean market to Mexican beef, with Mexican meat exports to the South American country virtually nonexistent in recent years. The Chilean market could prove lucrative for the Mexican beef industry, which generally exports its higher-quality and higher-value cuts while selling other parts in Mexico for domestic consumption.

Chile currently imports the largest amounts of meat from three South American neighbors—Brazil, Argentina, and Uruguay—all of which have large cattle industries. Chile’s meat imports also originate in the US and Canada.

While Mexico’s beef exports to Chile would probably not be much of a threat to Brazilian, Argentine, or Uruguayan sales, establishing a foothold in the Chilean market would be important for the Mexican meat industry. Mexican agriculture exports to Chile comprise a very small portion of total exports to the South American country. At present, 97% of Mexican exports to Chile are manufactured products, including televisions, tractors, and motor vehicles, according to data from ProMéxico, the export-promotion arm of the Secretaría de Economía (SE).

Mexico settles beef dispute with Russia

For the Mexican beef industry, the opening of the Chilean market is part of an overall effort to boost exports globally. The strategy includes maintaining its markets in Japan, the US, and Russia.
The prospects with Russia improved after a brief conflict in which the Russian government announced a ban on most imports of Mexican beef and horsemeat because of concerns that Mexican producers had not complied with a commitment to refrain from using the animal-feed additive ractopamine, used to promote leanness in animals raised for meat (SourceMex, April 17, 2013).

The Russian decision prompted intense high-level talks, led by SENASICA director Enrique Sánchez Cruz and Yevgeny Nepoklonov, director of Rosselkhoznadzor, Russia’s Federal Service for Veterinary and Phytosanitary Surveillance. After consultations, the two sides announced on April 24 that they had reached a compromise that would allow nine authorized plants in Mexico to export meat to Russia as long as the facilities committed to comply with the UN food codes that restrict use of ractopamine and other substances in the raising of cattle.

The compromise was significant for Mexico, which relies on the Russian market for 20% of its meat exports. In 2012, Mexican producers exported about US$251 million worth of beef and horsemeat to Russia.

**Mexico-Chile trade relationship changing**

Mexico and Chile appear to be consolidating their trade relationship further via the Pacific Alliance. Even though the two countries have had a free-trade agreement since 1991 (SourceMex, Jan. 26, 1994, July 28, 1999, and March 28, 2007), the trade balance has shifted to favor Mexico. In 2012, Mexico’s trade surplus with Chile amounted to about US$1 billion, said ProMéxico.

The ProMéxico data shows that Chilean exports to Mexico between 2007 and 2012 declined by 45%, while Mexican exports to Chile increased by 103% during the same period. But Joel Enríquez, ProMéxico’s director in Chile, suggests the numbers are misleading, as Chilean companies have shifted their strategy to manufacture more of their products on Mexican soil rather than exporting them from Chile to Mexico.

"These are only simple statistics indicating that Chile is exporting less and Mexico is exporting more," said Enriquez. "We have to view the trends through a different lens, whereby Chile is using a different strategy, substituting exports for direct investments in Mexico."

Enríquez said five companies invested about US$300 million in Mexico in a recent two-year period, including Tres Montes Luchetti (processed foods), Grupo CMPC (lumber and forest products), Molimet (chemicals, especially molybdenum), Sonda (technology), Grupo Saam (port infrastructure), and Masisa (tablets).

Still, ProMéxico noted that direct exports remain a viable option for many Chilean companies, with copper, wood, and manufactured products comprising about 79% of sales.

**President Peña Nieto touts Pacific Alliance**

Mexico’s bilateral agreements with its three partners in the Pacific Alliance in the past two decades appear to be a starting point for the growth of the trade bloc. In addition to the agreements with Chile, Mexico signed a bilateral accord with Peru in 2006 (SourceMex, Jun 14, 2006) and has maintained tariff-reduction mechanisms in place even though the trilateral Group of Three (G-3) agreement with Venezuela no longer exists on paper (SourceMex, Sept. 10, 2008). Chile and Colombia have a bilateral agreement that has been in place since 2006 (NotiSur, Dec. 15, 2006).
At a press conference during the meeting in Cali, Peña Nieto emphasized that the Pacific Alliance involves more than tariff reductions and improved business relationships. "[We are seeking] a free flow of capital and people," said the Mexican president. "We want an accord that supersedes any other agreements that we have, that brings our relationships to a new level."

Peña Nieto suggested that the new agreement could also serve as an opportunity for member nations to create the conditions to reduce poverty and social inequality. "We are an alliance that promotes economic growth, which I believe will result in greater prosperity for our citizens," the Mexican leader said.

But, despite the apparent harmony and optimism that the leaders of the four member countries presented in Cali, there are signs of discontent among some sectors in Colombia. "This is the equivalent of a brand-new trade agreement, targeted at making products cheaper," Eduardo Sarmiento, director of Colombia's Observatorio Económico at the Escuela de Ingenieros Julio Garavito said in an interview with the Colombian business magazine Dinero. "As we have seen in Europe, this policy does not generate economic growth, results in lower salaries, and worsens income distribution."

There are strong concerns in Colombia that tariff reductions would greatly reduce the price of agriculture imports from Mexico and Chile, which in turn could hurt Colombian agriculture producers. Groups like the Sociedad de Agricultores de Colombia (SAC) presented a list of products that could be affected by the new agreement, including rice, oil seeds, white and yellow corn, red beans, pork, chicken, sugar, and dairy products.

"Let no one be surprised if all the agricultural sectors join forces and mobilize against any new free-trade agreements and push for renegotiation of existing accords, columnist Jorge Enrique Robledo wrote for Argentina’s news service Argenpress.

Robledo suggested that instead of placing such a high priority on the Pacific Alliance, President Santos should pursue policies that would directly benefit agriculture producers in Colombia, such as lower-priced loans, debt renegotiation, price controls on inputs, and guaranteed prices.

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