



Mexico

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FACTS & FIGURES

Area - Comparative:
Slightly less than three times the size of Texas

Coastline: 9,330 km

Population:
108,700,891 (July 2007 est.)

Independence:
16 September 1810 (declared);
27 September 1821 (recognized by Spain)

GDP (Purchasing power parity):
\$1.353 trillion (2007 est.)

GDP (Real growth rate):
3% (2007 est.)

Natural resources:
Petroleum, silver, copper, gold, lead, zinc, natural gas, timber

GDP - composition by sector:
Agriculture: 3.9%
Industry: 26.3%
Services: 69.9% (2007 est.)

Source: CIA: The World Factbook

▶▶▶ POOR PRODUCTIVITY AND RISING UNEMPLOYMENT AND POVERTY LEVELS HAVE PLAGUED MEXICO'S AGRICULTURAL SECTOR SINCE THE 1994 NAFTA. THESE ISSUES DEMAND ADDRESSING, WHICH CAN ONLY BE A GOOD THING

Agriculture once again takes center stage

IN A COUNTRY THAT has a diversity of regions and ecosystems, and is neighbour to a range of lucrative export markets, the Mexican agricultural sector should be thriving. Since the North American Free Trade Agreement (NAFTA) came into effect in 1994, the average annual growth of Mexican agricultural exports has stood at 10% (amounting to \$13 billion in 2007). Along with the rising prices of commodities such as maize and sugar, both farmed extensively on Mexican soil, dark clouds should, for now at least, have dissipated from the horizon.

However, a major protest by farmers in Mexico City on January 31st against the banishing of NAFTA's last tariffs on maize, sugar, milk and beans was perhaps the noisiest indicator that all is not well in rural Mexico.

While some larger states in the north of the country are using efficient farming practices to increase productivity, the Ministry of Agriculture recently suggested that only 6% of farmers are highly efficient. Home to 25% of the population, rural Mexico is a cause for concern as poverty is still a reality and subsistence farmers are often under-producing.

In light of the recent NAFTA developments, the possibility of cheaper produce entering from the north has created discontent, but in reality much of Mexico's needs for these products come from shortfalls in domestic production, raising further questions about the sector's productivity levels.

The situation is such that in order to fulfil domestic needs and international trade am-

bitions, the agricultural sector must become more competitive. This can only be done if producers, processors and agricultural associations make a widespread commitment to change and modernization. Commitment is also needed in terms of policy and funding, both issues that are the responsibility of the federal government.

According to the president of the National Agricultural Council (CNA), Jaime Yesaki, that commitment is finally coming as agriculture is back on the political and financial agenda. In 2007, the agricultural sector was discussed at a Mexican bankers' convention for the first time in 15 years. "We hope that the finance sector's words become a reality," says Yesaki, "and that competitive funding is provided, but not on terms that make getting credit impossible."

Felipe Calderón's government's awareness of the need for rural development was evident in the recently launched National Development Plan for 2007-2012. Along with plans for improved infrastructure and economic diversification in rural areas, the agricultural sector itself has been positioned as a key industry for development. Training, better organization, more research that will lead to the production of more suitable and cost-effective crops, and a better market strategy to meet domestic and international demands are all part of the plan that aims to see Mexico taking better advantage of its



strategic position and unique geography, and better care of its people.

Yesaki adds, "As businesspeople in the agricultural sector, we have hopes that this government will make important decisions that will improve our competitiveness." The president of the agricultural holding company Grupo Ceres Guillermo Elizondo also has confidence in Calderón's government. "We believe that President Calderon has shown that he is willing to achieve things," says Elizondo.

However, drawing plans up is not the same as implementing them. Sector support for transgenic crops, an alternative that, according to Yesaki, would greatly improve productivity, still battles a negative public image. According to Elizondo, however, it is a losing battle: "I think that biotechnology and genetic improvement by gene transfer is here to stay, and we will have to adapt."

Better use of technology in the Mexican sector depends on the training and funding provided, in addition to attracting higher levels of Foreign Direct Investment (FDI), which currently stands at 0.01% of the country's total FDI. Upping FDI levels depends, in turn, on creating the right conditions and opportunities for investors.

Some regions that are showing how Mexican agriculture can really compete are doing so by growing alternative crops,

such as fruit and vegetables, which are currently dominating Mexico's agricultural exports. In the eastern state of Sinaloa, fruit and vegetables, along with maize, are the main products. This gives the region the competitive advantage of being a winter supplier of fresh produce to the U.S.

Sinaloa Secretary for Economic Development José Ignacio de Nicolás Gutiérrez says his state can contribute even more, however, by adding value to the production process. Working hand in hand with local businesses, the government is developing a strategy to create a Sinaloa brand. "We plant, harvest, care for and water our products, and we only earn a quarter of what the product will get once in the U.S.," says de Nicolás. "Now we're going to promote the branding of these products."

To ensure success, Sinaloa would do well to follow the example of some of Mexico's best-known products. Secondary products such as beer, tequila and bakery

products have become staple favourites outside Mexico, proof that international markets are receptive to quality Mexican goods.

Meanwhile, adding value does not only mean good branding. Jaime Yesaki says that it should also come from adding another stage to the production process. "Mexico sells commodities; we export fruit and vegetables instead of selling preserves or other products. To change this, we need to innovate, train producers and invest in productive associations among our farmers."

This will also require greater cooperation between producers and processors, according to Juan Carlos Zabłudovich, president of Mexico's consumer products industry association, who says that the agreements between beer manufacturers and barley farmers are examples of the "close relationships between producers and consumers" that are much more preferable to having to import basic ingredients because of a domestic shortfall.

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TEQUILA

Designer tequila is taking the world by storm

In the global spirits market, quality tequila is finding its way into the glasses of the most demanding consumers

THE DELICATE process of making fine tequila has sparked the interest of spirit drinkers beyond Mexican borders in recent years. In response to this new-found enthusiasm for quality spirits, tequila-makers are pushing their products further, not only through the methods they use to produce the spirit, but also through their choice of branding both at home and abroad.

The new category of Extra Añejo that was introduced in 2005, where the spirit is barrel-matured for at least three years, has helped tequila, especially the higher-end brands, to become the must-have spirit in the United States, Europe and Asia. As a result, there is not a major distillery in Mexico that, in recent years, hasn't re-thought its products to meet the needs of increasingly demanding consumers.

Moreover, as international markets clamour for premium tequila, Mexican producers are also becoming more sensitive to global branding standards. Consequently, they have created a Denominación de Origen (Guarantee of Origin) classification, similar to that used for many European wines in which products are linked to specific locations and conditions. This has significantly heightened tequila's competitiveness in the face of other high-end spirits and unapproved imitations.

Miguel Ángel Domínguez, President of the Tequila Regulatory Council (CRT), is charged with the regulation, R&D and export support for Mexico's tequila industry. Delighted with this new enthusiasm for tequila, his agency is encouraging producers to maintain quality standards.



A higher class of Mexican tequila, Extra Añejo, was introduced to global markets in 2005.

"At CRT, we are convinced of the importance of promoting an authentic, quality product. Through categories such as the Extra Añejo, we are con-

solidating the image of tequila and the idea that Mexico can produce quality products suitable for tastebuds all over the world."

One tequila producer that sends its products as far afield as Japan is La Madrileña. In response to the changing nature of the industry and product, the company is working hard to ensure that its brand name is further established in international circles.

A family business founded in 1911, La Madrileña had historically exported unbranded tequila. Lately, however, as a result of its experience as the main distributor in Mexico of various international brands, such as the United States' Ernest and Julio Gallo wines, Director General Luis Velasco Fernández says that, "the transition from being purely a producer to a distributor of other people's brands has helped us internally to market our own brands better."

BIOGENICS & BIOFUEL

A struggling sector looks to new technologies

Improved commercial farming methods, transgenic crops and bioethanol are the new hopes of Mexican agriculture

PRESSURES ON Mexico's agriculture industry today are high, and can only be relieved through increased efficiency and productivity. Attempts to modernize the sector have brought not only field size and machinery under the spotlight but also the kind of crops that are grown.

In 2005, congress passed legislation legalizing transgenic crops, but while more than 25 million hectares are planted worldwide, with maize as the world's second biggest genetically-modified food, Mexico's transgenic products currently include only soy and cotton, which are grown on just 100,000 hectares.

Attempts to make the sector more efficient are raising questions about how Mexico can adapt its choice of crops, while ensuring that domestic demands are met. The planting of transgenic crops in neighbouring countries, such as Honduras, has seen a jump in productivity that is increasingly attractive to the Mexican agricultural industry, which suffers from low production rates compared with other developing countries.

Hoping to raise awareness about the use of biotechnology in Mexican agriculture is Agrobio, an organization

founded in 1999 and whose members include companies such as Aventis and DuPont. Executive Director Carlos Camacho Gaos says the organization is aimed at promoting "the understanding and use of agricultural biotechnology" in order to boost productivity.

Health and environmental concerns about the impact of transgenics and other aspects of biotechnology are addressed by Agrobio through the organization's collaboration with research institutions. It also monitors the regulatory framework for their implementation.

Bioethanol is an area of significant potential for Mexico's agriculture sector, and last year, the regional leader in the technology, Brazil, lent technical support and know-how to the Mexican sector.

The domestic savings alone would be considerable if Mexico were to embrace bioethanol production, and in states like Sinaloa, various bioethanol plants are now under construction. Moreover, there are hopes that future research will discover efficient methods of converting crops other than sugar and maize into fuel, adding further potential for growth in the agriculture sector.

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Mexico

DAIRY PRODUCTS

Increased competition is not the end, says national industry leader

Mexico's demand for milk products outstrips its output. Can Mexican producers fill this gap?

WHILE THE MEXICAN dairy sector is forecast to increase milk production in 2008, there will still be a shortfall of almost 2.5 million liters between demand and supply. This deficit will be covered by imported powdered milk, making Mexican demand of this product one of the world's highest.

While this gap between supply and demand clearly questions the productivity of the sector, in recent months the industry has felt further pressure from the rising prices of the grain that is used for livestock feed, which affects farmers, milk producers and consumers alike. The final implementation of NAFTA trade regulations has also stirred discontent both north and south of the Mexican border, amidst fears of further difficulties in selling milk for domestic consumption.

With dairy farmers recently protesting in Mexico City in an appeal to the government for protection from cheaper foreign alternatives, the question is how can the Mexican dairy sector show that being competitive in the domestic market and in the context of NAFTA is a reasonable goal?

One of the country's biggest milk producing groups, Alpura Group, is leading the drive for improved efficiency and



By growing its own fodder, Alpura is setting an example of how the Mexican dairy sector can be more efficient.

productivity through technical innovation and infrastructure investment, both issues that the Ministry of Agriculture already ruled essential in its 2007 drive for increased competitiveness in the national milk producing sector.

Alpura CEO Víctor J. Gavito has no doubts about the quality of the company's products in the face of competition from the north: "Alpura's raw milk is the same quality as the milk from California, and the productivity of our animals matches that of U.S. livestock. We produce most of our own fodder, and we use leading technology."

Mr. Gavito does, however, see the need for improved management of the domestic market, which needs to come

quickly. "The real challenge is the speed with which we can achieve the necessary growth. We need a different vision, one that considers how we should support our producers, how we can ensure that our products are sold at the right prices."

Alpura Group, which in 2006 was the dairy sector's most efficient company with EBITDA growth of 19%, oversees its milk production from start to finish. Formed over 35 years ago as a farmers' association, Alpura's members own shares that provide them with annual supply quotas. The group processes 2.8 million liters of milk daily in two processing plants, with milk supplied by more than 160 dairy farms throughout the country.

The eleven companies that form part of the group, whose activities include manufacturing supplementary products and improving the efficiency of livestock, contribute to Alpura Group's vision of combining technology and constant quality control. They produce a range of top dairy products, which are distributed throughout Mexico.

With a clear commitment to quality, Alpura Group is a positive example of how supplying the Mexican dairy market in a productive and efficient manner can benefit individuals throughout the supply chain. It is also proof that increasing competition does not need to be a barrier to success.

INFRASTRUCTURE DEVELOPMENT GETS GREEN LIGHT

New commitment to infrastructure to boost sectors across the board

The intentions of both the private and public sectors to build up transport infrastructure have been warmly welcomed by the country's farmers

FOR PRESIDENT Felipe Calderón, there are few indicators of progress that are better than the development of new and improved infrastructure. Consequently, with its 2007-2012 National Infrastructure Plan, the government plans to show the progress the country is making by increasing investment in infrastructure to 8% of GDP by 2010. There are now more than 300 projects under proposal, based on a public-private partnership (PPP) model.

Complementing this is the more general National Development Plan (NDP), covering the next four years, which provides a road map of how the Calderón administration aims to improve living standards in the country through multi-sector development and increased economic competitiveness. Construction and real estate are two of the sectors targeted by the plan. Compared with the slowdown in these sectors in more developed economies, in Mexico they are still seen as strong contributors to economic growth, mainly due to housing shortfalls in many regions.

The government's commitment to building a stronger Mexico should have a positive affect across the economic board as well as on FDI inflow, and the country's cement producers are looking forward to this fresh impetus. Among these is Cooperativa Cruz Azul, one of Mexico's oldest cement manufacturers and its second-largest after Cemex, itself now third-largest in the world. Although the company has participated in a number of large-scale tourism and infrastructure projects over the past few years, Executive Director Guillermo Álvarez Cuevas says that it is gearing up to increase production in light of new government plans to expand the economy.

"We are eager to modernize our cement factories and increase the volume of concrete produced. Right now we produce eight million tons per year, and we want to increase that to ten million within the next two years," he says.

This increased production will undoubtedly be channeled into real estate, a sector that used 18.6 million tons of cement in 2006 alone. The Calderón administration will also continue the credit program for low-income households begun by the previous Fox government, which helped to fuel the largest housing boom Mexico has seen in recent years.

NDP has estimated that the country

needs approximately six million additional housing units, but has stressed that the sector must also be sustainable, both financially and in terms of location and quality. Along these lines, the cement industry is also highly aware of the environmental impact of the cement production process. In February 2006, 15 major cement-producing companies, including Cruz Azul, Cemex and Altos Hornos de México, were recognized by the Environment Ministry for publicly reporting their greenhouse gas emissions.

"Our concerns about ecological issues are not limited to gas and dust, we also consider noise and water treatment in all our factories," says Álvarez Cuevas of Cruz Azul. "We've just made a significant investment. Containing the dust and gas used to require a lot of water, but we now have facilities that allow us to save up to a million liters of water daily."

Modern facilities and more efficient methods of production mean that the ce-

ment industry can look forward to playing a major role in Mexico's infrastructure development. This includes plans for three new airports as well as expansion projects on an additional 31 airports, five new ports and the modernization of another 21, and work on more than 17,000 kilometers of roads.

Cuevas adds, "Road construction is of the highest priority here. We need motorways that provide direct links between the larger cities, without having to go through all the smaller villages and towns in between." Indeed, no region has been left out of the government's plans for infrastructure development, an attempt to spread progress to strategic areas outside of the capital as well, such as the United States-Mexican border and the Yucatán peninsula.

Now it's a question of making these plans a reality. In February 2008, the president

of the Mexican Construction Chamber of Commerce (CMIC), Netzahualcōyotl Salvatierra, asked that the infrastructure projects be implemented quickly in order to attract investment, create jobs and, most importantly, respond to the economic slowdown taking place in the United States. That same month, the government announced that an extra \$25 billion will be added to the National Infrastructure Fund over the next five years, making it clear that both the private and public sectors are anxious to get started.

Now the challenge must also be met by companies such as Cruz Azul. While a commitment to Mexico and its people has remained a constant throughout the company's history, involvement in the proposed construction projects will provide it with another chance to demonstrate its commitment to national development, under the auspices of a government policy that aims to make Mexico a better place to live and do business.

In February, the government announced an additional \$25 billion for its infrastructure development plans

MICROFINANCE

No barriers to growth

A rapidly expanding banking sector is providing a range of new services, in particular much needed microfinance

THERE ARE 40 commercial banks currently operating in Mexico, a high proportion of which are foreign-owned by global companies such as BBVA and Citigroup. The number of banks in the country, however, is just one sign of how the banking sector has been transformed since the Mexican financial crisis of 1995.

Perhaps what is most interesting, in a country where faith in the banking sector is still relatively weak, and where in 2000 only one in five Mexicans had a bank account, is the change that has taken place in the range of services now available to clients.

One of these, microfinance, has added a much needed new facet to an industry that seemed to be failing certain segments of society, those whose socio-economic circumstances had previously limited their access to credit. Today, more than 40 institutions and banks are specializing in microfinance and providing tailor-made products for low-income clients.

While most microfinance services in Mexico are relatively new, one bank has almost 17 years of experience in the field. Previously an NGO until its establishment as a financial institution in 2000, Compartamos today enjoys 5.8% of a potential market of 14.5 million people, and has over 250 branches throughout the country. Its number of clients rose by 36% in 2007 alone.

At Compartamos, however, according to co-Executive Director Carlos Danel, clients are far from being just numbers. "If you talk to staff and clients, they understand that we want to do something else than just provide money. We are providing opportunities for the growth of people, doing something for their households and for the country."

The products and services that Compartamos offers low-income entrepreneurs are: Income Generators, which provide credit to groups of 12 or more women to set up businesses; Home Im-

provement, loans for women with an existing Income Generator Credit; Solidarity Group, loans for smaller, mixed groups; and Individual Credit and life insurance, which are available to all clients. Repayment is based on the microenterprise's performance.

"Microfinance has proven that low-income clients can use working capital and grow themselves out of poverty," says Danel.

Projects financed by Compartamos include the rural trade of food products, garments and handicrafts, farming and agriculture activities as well as other trade-related activities and services. Clients vary not only in terms of their business plans, but also in gender, background and geographical location.

In the future, Compartamos is looking to grow both vertically and horizontally. "The core of what we do for the next three to five years will be the same," Danel comments. "But we also want to offer clients more products and services to serve their needs in other areas."



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