

CEGSA

Mexico Government Reporter

Official Acts . Diario Oficial . Legislative Intelligence . Not a Press Summary

Topics Covered

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Next Week:

- Extraordinary Session Results
- Telecommunications Reform Legislation— Completed or Derailed
- Water Fight Between US and Mexico - Steam From Washington and Mexico
- New Fox Electricity Reform Package
- Creel Efforts to Organize Congressional Dialogue

26 April - 2 May 2002

Weekly Summary

The spring session of Congress came to an end this week without a lot having gotten done. Nonetheless, the tone in Mexico is more positive and the recognized need to be more productive is more substantial than at other times in the past. It is expected that an Extraordinary Session will be convened in late June to pass at least a few of the accumulated initiatives awaiting consideration. The parties currently are negotiating the terms and agenda for such a session.

The Supreme Court ruling last week that struck down as unconstitutional Mr. Fox's unilateral efforts to privatize the electricity sector has been a wake up call to both the Legislative and Executive branches. Mr. Fox has been constructive and positive in his reaction to the ruling. He stated publicly and privately that Mexico was in a new age and that he would do his part by trying to be more collegial with the Congress in framing policy through the initiatives he proposes and the policies he pursues.

To this end, Mr. Fox met with leadership from both the Senate and the Camara of Diputados to discuss how they were going to move forward. Reaction from the two branches of Congress has been positive and constructive. They complimented the new tone from Los Pinos and they pledged to do their part to be engaged and communicative in working through the backlog of legislation of some 460 initiatives.

Highlights

- **Mexico Sets HFCS Fructose Quota Due to US Violation of NAFTA** (Agriculture, p. 3)
- **Lot of Talk About Mexican Paisanos in US** (Border Issues, p. 3)
- **Telecommunications Reform Suddenly in Trouble** (Summary, p. 2)
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- **2002 Growth Estimates Raised; Congress Not So Sure** (Econ. News, p. 5)
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- **Private Lending Falls; Fox Wants More; Reforms Needed First** (Finance p. 8)
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- **No Retaliation Against US Trucking Rules** (Transp. P. 13)

The dynamic going on between the Executive and Legislative branches is more profound than just a realignment of power. The prospects for revival of the Mexican economy hangs in the balance. Without action on many of the initiatives that have been languishing in Congress, inflation is threatening to return, unemployment will not recover, and investment in essential services and infrastructure needed for sustained economic health is in jeopardy.

Already, the weakened peso is being blamed in part on the inability of the Congress and the President to pass laws considered critical to economic stability. This weakened peso is throwing into risk the Bank of Mexico's promise to investors that inflation will be 4.5% this year. April inflation was higher than expected, and analysts worry that more expensive imports will have an accelerating effect on higher prices.

Conversely, the beneficial effects of a weakened peso are not having a positive effect on a historically critical part of Mexico's industrial base. Maquiladoras previously have been the parakeets in the mine of economic activity. They were the first to feel the negative effects of a more expensive peso and of the toxins of economic decline. Likewise, they were the first to recover when the Mexican peso got cheaper and the air of economic conditions stabilized.

This time, despite economist optimism that the economy is getting better, both domestically and internationally, Maquiladoras are not enjoying their traditional return to health. Indeed they are getting even sicker, according to the Camara of Maquiladoras and even state leaders in charge of economic development. Maquiladoras lost 226,000 jobs and 681 companies in 2001, and the prognosis is that they will continue their decline in Mexico despite better economic conditions.

Maquiladoras are claiming, and nobody in the government is denying, that the reason for their decline and their inability to assist in the nation's economic recovery is the legal framework in which they must operate. Without a substantial realignment of laws and regulations, their competitiveness is muted and the incentive to move to other countries more solicitous of their needs and characteristics is increased.

Congress and the Executive branch will need to go beyond general statements of cooperation and work together actively on the maquiladora issue for a resolution to be found. If they do not, then maquiladoras will disappear from the landscape of Mexican commerce, and places like Ciudad Juarez will collapse under the weight of decreased industrial activity and inadequate infrastructure that is being further stretched by more arrivals looking for work that does not exist and less revenue sharing monies from Mexico City cut offset lower tax receipts.

Turning to specific reform packages that are in negotiation, the recent promises of coordination and cooperation are being overtaken by the exigencies of the day. The telecommunications reform that everyone thought was close to being ready for passage is being threatened suddenly by a last minute 'ghost' initiative presented by six PRI and PRD Diputados. By the terms of Article 67 of the Constitution, an extraordinary session cannot consider an initiative that has not been agreed to previously. The sudden appearance of this new initiative that many say is just an illusion as it was never published in the Congress throws into question the basis for consideration of the parliamentary conference version of the reform package. As the supporters of the ghost initiative include PRD Diputado Victor Ochoa Camposeco, who is affiliated with the leader of the telephone workers' union, many in Congress are seeing this as a ploy by Carlos Slim and Telmex to derail the telecommunications reform package that was on the verge of being passed into law. Telmex stands to lose its control position in Mexico with passage of the reform package that all agree will increase competition, investment and transparency.

Regarding electricity reform, instead of negotiating around the Manuel Bartlett version that has been considered the plan to beat, the Fox Administration is telling PAN leaders that a new reform proposal is being crafted that will not include modifications to the constitution. Instead of using the Bartlett version of reform as the starting point, Mr. Fox is telling his party leaders in Congress that he plans to start the process all over with yet another plan. That constitutional change will no longer be a part of the new Fox plan is seen as a victory for Bartlett, PRI contacts are concerned that Mr. Fox does not intend to include the Bartlett elements in his plan. They fear that Mr. Fox again will fly solo and seek to open electricity to private investment by a statutory reinterpretation of the definition of 'public service'. If Mr. Fox tries to do this, the melodic tones of cooperation and collegial respect may turn sour very

<p style="text-align: center;">Events by Topic, 26 April - 2 May 2002</p>
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Agriculture

US HFCS Importation Quota Announced: On the grounds that the sugar industry has great social importance and is in deep commercial crisis, and based on the non-compliance of the sugar/HFCS provisions of NAFTA, the Economy Ministry establishes the quota for the importation of HFCS fructose from the US. 95% allocated to importers during 2001; 5% for new importers. Procedures for importation listed.

Diario Oficial: Agriculture Ministry and the States of Guanajuato and Zacatecas agree to the registry of brands, trademarks and tattoos used on livestock pursuant to the Law of Ranching Organizations.

Border Issues

US Congress Stripping of Illegal Immigrant Regularization from Border Security Law Results In Lots of Motions in Mexican Congress. When the US Congress passed its Border Security Bill, the provision that legalized (regularized) 3.8 million Mexican immigrants that had entered the country illegally was dropped from the text in order to assure passage. This legislation had been, at least publicly, strongly supported by Mr. Bush. In response to this action, a number of different events were organized by both the executive and legislative branches in Mexico.

- Mr. Fox, as well as several of his ministers, disagreed with the action of the US Congress and pledged to continue the fight to normalize relations with the United States through the legalization of these illegal immigrants.
- Dip. Eddi Varon Levy (PRI) presented a resolution, which was approved by all parties in Congress, expressing profound distress concerning the poor treatment by the United States of laborers who had been brought to the US to work during World War II. The resolution states that the US should use mechanisms contained in its own Humanitarian Visa Program to make reparations to these workers. Levy stated that in 1942 the US instituted the Bracero Program by which almost 5 million Mexicans came to the US to work for wages 50 percent less than that earned by Americans. The resolution declares that remuneration or reparations should be requested from the US.
- Congressional leaders from all parties sitting on the Mesa Directiva and the Policy Coordination Group, including Diego Fernandez of the PAN and Enrique Jackson Ramirez of the PRI met with the leaders of several Mexican migrant associations in the US. De interchange to points of view about the protection of worker and human rights in the US, and they all agreed that more participation by those paisano Mexicans in the Mexican political system needed to be enabled.
 - Specifically, all parties agreed that Paisano Mexicans needed to be able to vote despite the fact they lived outside the Mexican border.
- The CEGSA database contains many quotes and statements of position by various diputados and senators, as well as the leaders of the US based groups that met with the Congress. They are available upon request, has always. Some were anti-Fox, some were anti-Mexican government for complacency, and many were anti-US government.

Business Regulation

Diario Oficial: Economy Ministry identifies all of the testing laboratories that are accredited, approved and otherwise qualified to perform identified types of scientific analysis required by law or regulation.

Commerce

Diario Oficial: The Economy Ministry revokes the authorization previously granted to the following entities to open representative offices: Sorema, S.A., de Paris, France; Reliastar Life Insurance Company of Minneapolis, Minnesota, US; Scor Reinsurance Company of New York, US.

Communication

Telecommunications Reform Thought Likely in June; Now Big Doubt With Last Minute Presentation of Ghost Initiative. See Politics Section below for a discussion of the Extraordinary Session. Likewise, see the Summary above for a discussion of the initiative suddenly presented by six diputados, with connections directly to the telephone workers union and indirectly thereby to Carlos Slim and Telmex, that may throw the negotiated reforms into doubt, at least during the upcoming Extraordinary Session. Details of the telecommunications package thought likely to be enacted, as well as a discussion of still outstanding issues, is available upon request.

Constitution

More Reaction to Supreme Court Finding Fox Electricity Regulations Unconstitutional; Fox Meets With Legislators in Response and Pledges Cooperation. While the PRI, PRD and PVEM are understandably still doing victory dances over the supreme court decision last week that found Mr. Fox in violation of Articles 25, 27th and 28 of the Constitution for his regulations that increase the amount of electricity private companies could sell, the tone in Congress is actually quite constructive and positive rather than confrontational with the Executive Branch.

- Senator Manuel Bartlett stated that the judicial decision will help the Legislature with its efforts at electrical reforms, stalled since 1999. He declared on the floor of the Senate that this decision was the finishing touch for Mr. Fox's efforts to change the Constitution in matters of electricity. "He will no longer be able to continue privatization through a false door."
- On the other hand, the president of the Energy Commission in the Senate, Juan Jose Rodriguez Prats (PAN) rejected the idea that this was a defeat for the concept of electricity reform. In trying to show that the glass was half full, he pointed out that "we live in a Mexico in which its institutions are adjusted: something has just died in something has just been born." Following a long meeting with PAN Coordinator Sen. Diego Fernandez de Cavallos, Rodriguez declared that this decision only stimulates him to work harder as a legislator.
- PRD leader Demetrio Sodi stated that this close the door on privatization of the electricity industry as envisaged by Mr. Fox.
- PVEM Legislator Sara Castellano celebrated the decision by observe that both the president, Congress and the country lose in the eyes of foreign investors since all permits issued by Mr. Fox since the unconstitutional ordinance was enacted are without a fact. She stated for the PVEM her conviction that this case varies the chance of electricity privatization.
- Mr. Fox did not directly attack the Supreme Court ruling. Instead, he constructively stated that his administration would have to work closely and coordinate with the Congress in this and all matters of national importance. To this end, he called a meeting of all congressional leaders from all parties at Los Pinos to discuss coordination and cooperation. He met with the Senate leaders last week, and he is meeting with the leaders of the Camara of Diputados this week.
 - Senate contacts report that the meeting indeed was constructive and that all parties pledged to try to work with one another to achieve legislative advances considered critical for the economy and the nation. Attending the meeting were Enrique Jackson for the PRI, Diego Fernandez for the PAN, Jesus Ortega for the PRD, and Gloria Lavara for the PVEM.
 - Nonetheless, PRI and PRD contacts disclose that Sen. Bartlett has refused formal and informal entreaties to back away from his refusal to allow constitutional reform for energy matters. He is being supported in this position by among others Enrique Jackson and Jesus Ortega.

Customs

Diario Oficial: Finance Ministry makes its 28th Modifying Resolution to the Miscellaneous Tax Resolution for 2000, with Annex 21. The modifications concern:

- Amount of customs fees for electronic forms processing that are allocated to IVA;
- Modified procedures and forms for automotive industry entities that handle their own customs work
- For companies authorized to offer electronic data processing for customs work concerning the importation of trucks and trailers, the method for calculating IVA due for the service charges are defined.
- Procedures for importation of fraccion 8704.31.04 from the US or Canada.
- Termination of Bonded Warehouse status for facility in Celaya, Guanajuato.
- Identification of specific points of customs entry for sound recording equipment, petroleum and bituminous minerals.
- Price list for secondary inspections at each customs office. Note: prices vary incredibly...from \$36.39 in Nuevo Laredo to \$322.73 in Veracruz.
- Annual Foreign Commerce Operations Report form revised (Prosec).
- Definition of C1, C2, C6, and M6 classifications for import and export permits are established.

Economic News

2002 GDP Growth Estimates Raised; Congress Remains Unsure. The Bank of Mexico and that Finance Ministry have raised their GDP growth estimates for 2002 from 1.5 to 1.8 percent. Likewise, the European Commission has revised its growth estimates for Mexico up to 1.9 percent. Indeed, the European Commission is estimating 2003 growth in Mexico to be 4 percent. Everyone is attributing their optimistic growth numbers on better than expected growth in Canada and the US, as well as eastern Africa and the European Community.

- Budget watchers in Congress are not as optimistic, according to informal inquiries by CEGSA. They point out that Mexico had negative growth in the first three months of -0.6 percent. Therefore, to achieve net growth of 1.8 percent, the Mexican economy will need to grow 2.4 percent during the last nine months of the year. Given ambivalent corporate income numbers, and a recognition that the 5.8 GDP growth last reported in the US was a skewed number and not indicative of true growth, Congressional contacts remain worried that the GDP growth will be far lower than is being promised.
- Contrary to congressional pessimism, the Bank of Mexico is reporting that 30 private analysts in interviewed are predicting an average growth in GDP of 1.63 percent in 2002, up from their January estimates of 1.36 percent. These analysts are conditioning their optimism on the assumption that risk factors include external markets, the world economy, as well as weakness in the domestic market and appreciation of the exchange rate.

1-15 April Inflation Higher Than Expected. That Bank of Mexico was hoping for an inflation rate of 0.37 percent. Instead, inflation for the first two weeks of April was 0.45 percent, due to higher prices for tomatoes, green tomatoes, housing, oranges, poultry, cucumbers and mass transit. The impact of higher prices for these goods was offset by lower prices for electricity, mango, squash, hotels, beans, eggs and fish.

Bank of Mexico Reaffirms Intention to Focus on Inflation. In its annual report for 2000 (Informe), the Bank of Mexico stated that in order to regain sustainable growth, it is necessary to maintain monetary in fiscal discipline in 2002. To send, the Bank of Mexico indicated its firm resolved to concentrate on the achieving an inflation rate of 4.5 percent in 2002 and 3 percent in 2003.

- Congressional observers infer from these statements that the Bank of Mexico will do nothing to stimulate economic development despite the fact that it did lower its withdrawals of monies from

the M1 money supply two weeks ago. Regardless of the reasons for its having done so, congressional leaders believe that further such actions should be taken by the Bank of Mexico. They attribute the stronger peso, with the resulting increase competitiveness for Mexican exporters, on the reduced withdrawals from the money supply.

51% GDP Concentrated in 5 States. The National Institute for Statistics, Geography and Information (INEGI) reports that 51 percent of the economy, 50 percent of industrial activity and 57 percent of the services sector are located in the Federal District (22.8 percent), the State of Mexico (10.2 percent), Nuevo Leon (7.1 percent), Jalisco (6.4 percent) and Chihuahua (4.6 percent). Additional statistical breakdowns available upon request.

Diario Oficial: Notice of changes in stated capital, liquidation, dissolution, merger or other government mandated changes in operation by the following companies: Union Consultora, S.A. de C.V.; Edificaciones S. S., S.A. de C.V.; VA Tech International Mexico, S.A. de C.V.; Mielles Del Pais, S.A. de C.V.; Vida Luz Y Paz, S.C.; Galgos Del Sureste, S.A. de C.V.; Cavimex, S.A. de C.V.; Cafeteras Internacionales, S.A. de C.V.; Banco Nacional de Obras Y Servicios Publicos, S.N.C.; Minera Terra Gaia, S.A. de C.V.; Pintura Industrial Horneada, S.A.; Banca Serfin, S.A.; Administracion Portuaria Integral de Altamira, S.A. de C.V.; Diconsa, S. A. de C.V.; Consorcio Ara, S.A. de C.V. and subsidiaries; Opticap, S.A. de C.V.; Fondo de Optimizacion de Capitales, S.A. de C.V.; Instituto Nacional de Investigaciones Forestales, Agricolas y Pecuarias; Comercializadora Nico-Orbe, S.A. de C.V.; Empacadora San Pablo El Golfo, S.A. de C.V.; Ishihara, S.A. de C.V.; Stop and Park, S.A. de C.V.; Dorling Kindersley Limited; Sensorama, S.A. de C.V.; Connurban, S.A. de C.V.; Centro Recreativo Y Deportivo Reforma, S.A. de C.V.; Royal & Sunalliance Seguros Mexico, S.A. de C.V.; Trottnr McJunkin Mexico, S.A. de C.V.; Miguel E. Abed, S.A.; Instituto Mexicano de Normalizacion Y Certificacion, A.C.; Sociedad Hipotecaria Federal; Nacional Financiera, S.N.C.; Siefore XXI, S.A. de C.V.; Afore XXI, S.A. de C.V.

Bank of Mexico Modifies Consumer Price Index. The Bank of Mexico has changed the baseline for the National Consumer Price Index, moving it from 1994 to 2000. The stated objective is to make V. measurements of inflation more realistic and in accordance with new habits of the consuming public. Additionally, products used in its National Index of Consumer Prices have been substituted. For example, railroad passenger fares are no longer used, but cellular phone fees are now included in the Index. Additionally, it publishes the detailed price quotations used in calculating the Consumer Price Index for March 2002.

Education

Diario Oficial: Education Ministry establishes the Project for Modernization of Technical Education and Training, and adopts the Certification Regimen established by the Normalization and Certification of Labor Competency systems managed by the Labor and Education Ministries, the state of Oaxaca, and National Financiera, S.N.C.

Energy

More Reaction to Supreme Court Finding Fox Electricity Regulations Unconstitutional. See Constitution Section above.

Diario Oficial: energy Ministry issues regulations regarding the evaluation of thickness of non-portable tank wall thickness by means of ultrasonic machinery using the 'pulse-eco' method.

Diario Oficial: Energy Ministry issues rules for accreditation of product certification companies who will inspect:

- The energy efficiency of vertical turbine pumps with external electric motors;
- The energy efficiency of submersible pumps.

Environment

Diario Oficial: Communication and Transportation Ministry publishes objections and its responses to said suggestions regarding proposed regulations for the handling and segregation of train cars and other units of transport carrying hazardous materials and their residues.

Finance

Senate to Put A Block On Legislation to Passed by Camara of Diputados to Allow Investment of Pension Monies in Foreign Securities. CEGSA is hearing that the Senate is not going to cooperate with the Camara of Diputados regarding the revisions to the Law of the Systems of Retirement Savings that would permit the Fund managers to invest part for the Fund in foreign securities in order to diversify and reduce risk. No explanation or lead opponent was identified. It was merely stated that there was opposition to letting the fund buy foreign securities.

- One alternative is that the housing and the energy sectors have their eye on these monies, and they have no interest in having the fund of available monies depleted by unrelated investments. Indeed Pemex is counting on access to those monies to offset the fact that its budgets are being reduced by the Finance Ministry, and it cannot enjoy the benefits of higher energy prices. All excess income over 15.50 dollars per barrel goes to the Federal Government's general account rather than the Pemex coffers. Likewise, the Fox Administration has promised to build 700,000 housing units per year, and Infonavit has the ability to handle only a fraction of that number.
- Regardless, the new rules to which the pension fund administrators must comply provide that Pemex and the housing industry are going to be disappointed in any event. As previously reported, the pension fund already has announced that regardless of Pemex wishes, investment will be on a case by case basis, and only following typical rules of avoiding concentration and unprofitable projects.
- In any event, under the version of the law passed by the Camara of Diputados, only 10% of the pension savings funds could be invested in foreign securities. At the end of the year, the administering Consar would have been obliged to return to the Congress and present a status report on the monies invested abroad in order to verify that the risk was not greater and the returns were more favorable to the Fund. Based on this information, the Congress would decide whether to increase or decrease the 10% limit.

Camara of Diputados Unanimously Approve Reforms for the Bank of Development and Other Public Lenders. The Camara of Diputados unanimously approved the dictamen from the Finance Commission that modifies the Law of Institutions of Credit; as well as the Organic Laws for: Nacional Financiera; the Bank of External Commerce; the National Bank of Public Works and Services; the National Bank of the Army, Air Force and Navy; the Bank of National Savings and Financial Services; and the Federal Mortgage Society. The purpose of the legislation is to strengthen each of the different government lending institutions, focus their activities, make their operations transparent, and administer the resources of the lending institutions so that their fiscal character improves.

- During floor debate, it was disclosed that the Bank of Development has completed a study for the promotion of the industrial, agricultural and tourist industries, together with development of foreign commerce and the channelization of credit to strategic sectors. For this reason, it was argued in the de Tom and that was approved that the development institutions should not act alone as credit grantors; rather, they should act as true investment bankers and be focused on specific projects with an eye toward profitability, creation of employment and economic growth.
- Regarding the reorganization of Nacional Financiera, the possibility was left open that this institution might be able to participate in capital markets like mutual funds. Likewise, the legislation seeks to encourage foreign-owned investments through the National cap Bank of External Trade (Bancomext).
- Additional terms included in the legislation include controls on the amounts of transfers and subsidies that the lending institutions receive, as well as the contingencies that they face as a result

of covenant grants of title or labor contingencies. Additionally, in order to minimize the risk of fiscal losses, the legislation includes the obligation for each bank institution to develop a trusteeship, funded by contributions that are based on the balance of their liabilities.

- Further details of available upon request.

Fox Pressures Banks to Increase Lending; Less Lending is Affecting Recovery; Congress Recognizes No Change Likely Without Judicial and Credit Reforms. Mr. Fox made a big deal in the press last week with his calls on banks to increase lending to individuals and business. No observer disputes his claim that additional credit would stimulate economic recovery and increase employment.

- Bank financing to the private sector fell 69.6 billion pesos in March 2002, as compared to lending in March 2001. According to the Bank of Mexico, total private lending to the non-banking sector was 921.7 billion pesos in March 2002, as compared with 991.3 billion pesos in March 2001. In billions of pesos, the March 2002 lending breaks down as follows:
 - 473.5 in direct financing
 - 60.6 for consumer debt
 - 57.5 for housing
 - 325.2 for businesses and individuals involved in business activity
 - 30.2 for intermediate non-banking financing
 - Conversely, debt associated with restructuring programs grew to 448.2, loans to states and municipalities totaled 41.2, and credits to the public sector likewise grew to 72.5.
- Notwithstanding the demands of Mr. Fox, lobbyists representing diverse commercial interests are stating that there will not be any substantial increase in available credit financing accessible to micro, small and medium-sized business until judicial enforcement and debt recourse legislation is enacted.
- Congressional contacts indicate that any such reform legislation is not on the immediate horizon, given the backlog of current legislation pending as well as the fear of a voter backlash in the 2003 congressional elections.
- Carlos Slim Helu, reputed by many to be the most powerful man in Mexico, criticized the budgetary and monetary and fiscal policies of the Mexican government this week. He also disagreed with Congressional observers by faulting banks for the tight private credit market. He observed that banks are busy investing all of their money in government debt rather than making it available for private loans to businesses and individuals.

Diario Oficial: The National Commission for Banking and Securities issues regulations governing the acquisition of securities that must be disclosed, as well as for public offers for the purchase of securities. Details as to which shareholders are subject to these regulations, as well as the forms for such disclosures, are available upon request.

Diario Oficial: Following approval and ratification by the Senate, the Mexico Federal Government and the Bank of International Payments finalize an agreement for the establishment of a representative office for the Bank in Mexico.

Diario Oficial: Finance Ministry approves an decrease and an increase in social capital for Arrendadora Financiera Navistar, S.A. de C.V.

Foreign / Diplomatic

Diario Oficial: Mr. Fox signs and certifies the Protocol by the UN Convention Concerning the Rights of Children Relative to the Sale of Children, Child Prostitution and the Use of Children in Pornography. This Protocol was previously approved by the Senate on 12 December 2001.

Diario Oficial: Mr. Fox signs and certifies the Protocol by the UN Convention Concerning the War Crimes Against Humanity. This Protocol was previously approved by the Senate on 10 December 2001.

Diario Oficial: Mr. Fox signs and certifies the Protocol by the Convention Concerning the Professional Readaptation of Invalid Persons, adopted by the General Conference of the International Labor Organization. This Protocol was previously approved by the Senate on 11 December 1999.

Diario Oficial: Guillermo Heimpel is terminated as Honorary Consul for the Republic of Germany in Sinaloa. His son recently was appointed to the same post, so this termination is a bit tardy and puts into question the effectiveness of the appointment of Heimpel Jr.

Diario Oficial: Erich Coufal is terminated as Honorary Consul for the Republic of Austria in Guadalajara as well as for the states of Aguascalientes, Baja California, Colima, Guanajuato, Jalisco, Michoacan, Nayarit, Sinaloa, Sonora, and Zacatecas.

Diario Oficial: Paul Richert Mock is terminated as Honorary Consul for France in Puebla and the state of Puebla.

Government Contracting

See Supplement for listing of Requests for Proposal open to bidding by non-Mexican companies.

Diario Oficial: Controller forbids all federal entities from doing business or entering into contracts with Encuadernaciones de Oriente, S.A. de C.V.

Government Institutions

PRI To Lead Special Senate Commission on Reformation of the State; To Coordinate With Camara of Diputados Commission Doing Same Review. Led by PRI Sen. Genaro Borrego, the Senate created a Special Commission for the Reformation of the State. This Special Commission is specifically instructed to coordinate directly and regularly with the parallel commission in the Camara of Diputados. Likewise, the Commission is staffed by the leading 14 legislators in the Senate. Backspace, including Enriquez Jackson Ramirez of the PRI and Diego Fernandez de Cavallos for the PAN.

- The importance of this Special Commission cannot be over-emphasized. The results will define the nature of the relation between the Executive and Legislative branches, as well as the additional resources that the Congress will add to its procedures in order that it can do its work more efficiently, independently, and effectively. CEGSA will be researching the various proposal outlines and will discuss them in a forthcoming Special Report.

Diario Oficial: Insured Property Service Administration publishes the limits (lineamientos) that must be followed in order to satisfy established procedures for the declaration of abandonment of insured property.

Diario Oficial: Controller publishes its National Plan for 2001-2006 to Combat Corruption and Increased Transparency and Administrative Development. Includes significant charts, graphs, and sources of raw data on corruption and other themes. Details available upon request.

Diario Oficial: Controller establishes a Permanent Inter-Ministerial Commission for the Operational Coordination for Points of Entry into the National Territory. The Ministries of the Interior, Foreign Relations, Public Security, Finance, Environment, Economy, Agriculture, Communications and Transportation, Health, and Tourism, together with the Presidential Commission for Northern Frontier Matters are directed to work together in coordination by this Commission to maximize public federal services regarding the movement of goods and people across the northern border. The idea is to assure transparency and quality so as to maximize development and opportunities.

- The view from Congress is that this Commission may look good on paper, but they are not optimistic that it will do anything more than add yet another layer of bureaucracy to an already bloated executive structure. When Mr. Fox came into office, he established a coordinating

agency that was supposed to handle all inter-ministerial coordination, led by Eduardo Sojo. The view from Congress is that coordination and centralized control of the individual ministries has been seriously lacking. Nonetheless, they are hopeful that this border agency will have some effect.

Health and Human Services

Diario Oficial: Labor Ministry designates members of the General Assembly of the Institute of the National Workers Housing Fund.

Diario Oficial: Health Ministry modifies its Catalogue of Interchangeable Generic Medicines.

Intellectual Property, Science

Diario Oficial: the Mexican Institute for Industrial Property makes various corrections to its 16th April 2002 regulations regarding the tolling / documentary submission time extensions on account of force majeure.

Diario Oficial: Economy Ministry identifies all of the testing laboratories that are accredited, approved and otherwise qualified to perform identified types of scientific analysis required by law or regulation.

Justice / Law / Crime

Diario Oficial: Attorney General publishes its 2001-2006 National Program for Procurement of Justice. Includes discussions of democratization of the process, interaction of various parts of the federal government, special programs for organized crime and corruption, and elongated discussions of institutional change dynamics within the system. Details and summaries of this long but general document available on request.

Labor

Diario Oficial: Labor Ministry designates members of the General Assembly of the Institute of the National Workers Housing Fund.

Diario Oficial: The Extraordinary Program of Credits for Workers' Housing (FOVISSSTE) announce:

- Minimum qualifications for applications for credit for housing;
- The interest rates to be charged for said credits;
- The factors used to evaluate the applications for housing credit;
- The regulations for management of the housing credit accounts for workers (Includes income rating charts and housing expense charts).

Maquiladoras

Maquiladoras, Victims of the Superpeso. With the loss of 226,000 jobs in 2001, and the close of 681 businesses during the same period, the boom in the maquilas sector has been reversed and has ceased being a motor of development in Mexico. Fernando Lopez Palau, Secretary of Economic Development of the state of San Luis Potosi has estimated in press sources that for the next 6 to 10 years maquilas will not have their historical role in economic development.

- The view in Congress is that while though economic times have affected the maquilas sector, so too have internal policies put the continued health of the industry at risk. The feeling, and it has been long admitted by the Finance Ministry since the days of the Zedillo industry, that the Administration views maquiladoras as a business model that is by its very design intended to export tax revenues out of Mexico and back to the source country of the maquila entity's parent.

- In light of the fact that it is considered unlikely that employment will have net growth as envisaged by the 2002 Budget, and in light of the fact that the economy needs some attention paid to the individual worker, there is substantial interest in Congress to look for ways to reduce the regulation and improve the flexibility of the maquilas sector. The maquilas chamber's efforts to lobby the administration to take the lead in presenting such legislation to Congress has not been very successful. They admit to the existence of the problem, but they have been unwilling to use the political capital necessary to move necessary initiatives through the legislative pipeline.
- Nonetheless, everyone so far denies that there are any Labor Reform packages that have been drafted yet that would address this issue. Nonetheless, some Congressional contacts admit that while the actual legislation has not been drafted, fairly detailed outlines of what such a reform package would comprise have been drafted. They have been closely protected as many of the provisions that deal with job security and worker termination would create a hailstorm of objections from unions and worker groups.
- The feeling in Congress is that this legislation ideally will not be discussed until after the 2003 elections. Nonetheless, if the economy does not turn around, and maquilas industry continues to suffer serious defections to other countries, the growing consensus is that some of the reforms will have to be legislated on a piecemeal basis.

Politics

PAN and PRI Start Preparations for 2003 Congressional Elections.

- The PAN has begun getting ready for the 2003 elections in Congress, insisting that it is in position to take a controlling majority in the Camara of Diputados.
- Even assuming they are able to do this, this would not necessarily change the power dynamics between the Executive and Legislative branches since none of the parties will have the opportunity to also capture the Senate. None of the Senate seats are up for election in 2003.
 - Last week, the National Executive Committee for the PAN approved Rules for State and Municipal Chapters. The essence of the rules provide that it will be the municipal chapters that will be charged with getting out the vote and representing the PAN in the 64000 precincts around the country.
 - The PAN intends to create and integrate a network of municipal subcommittees that will be managed by their being divided up into groups of no more than 10 subcommittees called electoral sections. The subcommittees will be charged with the day-to-day operation and management of the party's operations.
- At the PRI, the Secretary of Elections, Cesar Augusto Santiago, told party Diputados and Senators last week that the current plan was the creation of an Institute of Public Opinion that would be responsible for designing election platforms and themes, headed up by an Electoral Council that would be composed of previous party Electoral Secretaries and Presidents.
 - This is disturbing to a large number of the younger more progressive party members as it signals a return to influence of the group of party leaders that were brought up through the ranks in another era, and indeed who were in large part responsible for the fall from grace of the party in the 1990s.
 - Roberto Madrazo, party president, announced that the key to victory for all parties will be to vanquish the invisible party of abstention. A world of Bartlebys threaten the fortunes of all parties and the key will be to get out the vote and to energize the base to ensure maximum participation. His point is that the typical voter turnout in recent elections has been 40%. In order to win control of the Camara of Diputados, the PRI will have to beat this percentage by a substantial degree.
 - Mr. Madrazo still has not outlined how he plans to get control of the voting population so they get out to vote.

- He also told the legislators of his party that he is planning a number of different methods of obtaining private financing for electoral activities in case the government election monies for the PRI turn out to be inadequate.

Madrazo Defends His Intended Policy of Non-Confrontation With Fox Administration.

The Secretary General for the PRI, Elba Esther Gordillo, has been on the record defending Mr. Fox and Foreign Relations Minister Jorge Castaneda concerning the dispute between Cuba and Mexico. For the first time, PRI President Madrazo has been forced to admit to what CEGSA has been reporting for months, namely that there is a personal friendship between Gordillo, Fox and Castaneda. Indeed, his Gordillo actively campaigned for Mr. Fox during the last presidential election.

- In light of criticism that good deal was taking a position contrary to that of the PRI in the Congress, Mr. Madrazo has admitted to the relationship and has stated that she was speaking for her own benefit and not in her capacity as Secretary General for the party.
- Nonetheless, Mr. Madrazo stated that while he did not have an active friendship with Mr. Fox, he nonetheless intended to pursue a strategy of non-confrontation in order to strengthen the authority and future prospects of the PRI.
- The PRI in Congress continues to disagree with Mr. Madrazo's approach. While they do not support or which confrontation, they nonetheless want to ensure that the P. R. I distinguishes itself from your Fox and the PAN party. Despite Mr. Madrazo's wish, as well as their agreement to cooperate and work with the Fox Administration on policy matters, they intend to continue with this policy of independence and outspoken disagreement where necessary.

More Reaction to Supreme Court Finding Fox Electricity Regulations Unconstitutional; Fox Meets With Legislators in Response and Pledges Cooperation. See Constitution Section above.

Diputados Pass Initiative to Give Priority to More Women Legislators. The Camara of Diputados approved a reform to the Federal Code of Institutions and Electoral Procedures that will seek election of women to at least 150 of the 500 seats in the Camera of Diputados beginning in 2003. Likewise, the legislation provides that at least 42 of the 128 candidates to the Senate must be women. The vote was 430 votes in favor, seven against and 12 extensions. In case the Federal Election Institute finds that any party is seeking to subvert this goal, it is subject to sanctions ranging from public admonishment, finds out to 5000 days of minimum wage, reduction in prerogatives and even cancellation of the party's registration.

Extraordinary Congressional in June. As CEGSA has already told you, there likely will be an Extraordinary Session for Congress in late June 2002. The goal will be to pass as many of the accumulative initiatives that were not passed as of the end of the regular congressional session on 30 April. The likely calendar for this period will include Telecommunication Reform, Energy Reform, particularly that concerning electricity, income tax legislation to make corrections to the 2001 Reform Fiscal including the luxury tax on footwear. Additionally, parts of the congressional caucus hope to reconsidered tax exemptions for copyright and the editorial industry, broader modifications to the luxury tax provisions of the IVA value added tax, and reforms to Article 39 of the Fiscal Code that Mr. Fox used to unilaterally reverse tax legislation that he had signed into law (concerning high fructose corn sweetener and sugar tax treatment for soft drinks).

- Despite this wish list, congressional contacts indicate that likely legislation to be passed during the Extraordinary Session will concentrate on telecommunications, luxury taxes, and possibly revisions to Article 39 of the Fiscal Code. If the dictámenes for the PRI and PRD electricity reform initiatives can be completed in time, then electricity reform can be handled as well.
- Additionally, the Budget Commission in the Camara of Diputados, headed by Diputado Luis Pazos, is hoping that Congress also will deal with reform of the budget process during the Extraordinary Period. However, the word within Congress is that these modifications and revisions will not be completed in time for consideration of the 2003 Budget insofar as they entail ratification of constitutional changes by the various states.

Tourism

National Tourism Program 2001-2006 Announced. The National Tourism Program includes statistics and a description of the programs the Tourism Ministry will pursue to achieve the short, medium and long terms goals that are described.

Trade

Diario Oficial: (Customs Matters). Finance Ministry makes its 28th Modifying Resolution to the Miscellaneous Tax Resolution for 2000, with Annexes 1, 3, 21 and 22. The modifications concern:

- Amount of customs fees for electronic forms processing that are allocated to IVA;
- Modified procedures and forms for automotive industry entities that handle their own customs work
- For companies authorized to offer electronic data processing for customs work concerning the importation of trucks and trailers, the method for calculating IVA due for the service charges are defined.
- Procedures for importation of fraccion 8704.31.04 from the US or Canada.
- Termination of Bonded Warehouse status for facility in Celaya, Guanajuato.
- Identification of specific points of customs entry for sound recording equipment, petroleum and bituminous minerals.
- Price list for secondary inspections at each customs office. Note: prices vary incredibly...from \$36.39 in Nuevo Laredo to \$322.73 in Veracruz.
- Annual Foreign Commerce Operations Report form revised (Prosec).
- Definition of C1, C2, C6, and M6 classifications for import and export permits are established.

US HFCS Importation Quota Announced; Pig Iron from Brazil: See Agriculture Section above.

Diario Oficial: Economy Ministry initiates an investigation and in the meantime imposes compensatory quotas and tariffs on soft iron, with and without metal covering, originating from Brazil.

Transportation and Freight

Mexico Resigned to Discriminatory Treatment by US Trucking Laws; No Intent to Retaliate. Undersecretary of Transportation of the Ministry of Communications and Transportation Aaron Dychter stated this week that there exists discrimination and unreasonable discretion in the rules that the U.S. has imposed on Mexican trucking entering the U.S. He further stated that are in violation of NAFTA.

- Concerning the U.S. regulations, which will need to be revised overtime, he in the Commission that they do not recognize Mexico as a new and. There are no time limits for responses from the U.S. authorities, the forms that must be completed for entry into the U.S. are extensive, questions are open-ended and all responses must be in English. Additionally, Mexican truckers have only 48 hours to present information solicited by the U.S. authorities, and the security audits will the reform on site.
- However, he went on to say that if Mexico mirrors the same rules for American trucking entering Mexico, it would only lengthen the opening process that already has lost a lot of time. The statements were made during a working meeting of the Communications and Transportation Commission in the Camara of Diputados.

Proposed Merger Between Ferromex and Ferrosur Railroads Will Help Competition and Increase Service: SCT. The Communications and Transportation Ministry is leaning toward a decision to permit the merger between these two railroad companies on the grounds that their merger will guarantee that the principal centers of economic activity in Mexico: Mexico City, Monterrey, Guadalajara and Veracruz will be well cover by at least two of the three licensees. In the case of Mexican ports, TFM has access to the to high-volume terminals for movement of cargo: Veracruz (13.7 million tons) and Lazaro Cardenas (12 million tons). Even with a merger, there will the competition between the two remaining companies in the high-volume areas of Veracruz, Tampico and Altamira. TFM will have access to almost 38 million tons of cargo

business between the Atlantic and Gulf of Mexico, and Ferromex will have almost 20 million tons of cargo business.

Diario Oficial: Communication and Transportation Ministry issues proposed regulations for the inspection and programmed safety repair program for railroad rolling stock and locomotives, including inspections every month or every 96,000 kilometers. Those interested can present objections, suggestions or commentaries for 60 days from date of publication.

Diario Oficial: Communication and Transportation Ministry publishes objections and its responses to said suggestions regarding proposed regulations for the handling and segregation of train cars and other units of transport carrying hazardous materials and their residues.

Diario Oficial: Communication and Transportation Ministry creates the 'Committee for Analysis, Issuance and Approval of Security Regulations' for aeronautical and airport issues.

Diario Oficial: Communication and Transportation Ministry grants to Aire Cable, S.A. de C.V. a license to use and exploit radio-electric spectrum frequencies, and public telecommunications network, in certain localities in Coahuila. Room

Diario Oficial: Communication and Transportation Ministry modifies the license granted to the Administracion Portuario Integral de Quintana Roo, S.A. de C.V. for the concession to administer the ports located in the state of Quintana Roo.