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Mexico

Solid Wood Products

Mexico Announces Final Rule for Wood Packaging Materials - Effective September 16th, 2005.

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Report Highlights:

On January 18, 2005, the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT) published in the Diario Oficial (Mexico's "Federal Register") the final rule (NOM-144-SEMARNAT-2004) for phytosanitary measures for wood packaging materials used to transport imported goods into Mexico. The revised wood packaging materials regulation is effective September 16, 2005 and replaces the emergency rule announced on November 26, 2003. These measures are designed to bring Mexico in compliance with ISPM 15 of the International Plant Protection Convention (IPPC) and harmonize regulations among IPPC members. (Ref: MX4502 & MX5501).

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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Disclaimer: This summary is based on a *cursory* review of the subject announcements and therefore should not, under any circumstances, be viewed as a definitive reading of the regulations in question, or of its implications for U.S. agricultural export trade interests. In the event of a discrepancy or discrepancies between this summary and the complete regulations or announcements as published in Spanish, the latter shall prevail.

Executive Summary

On January 18, 2005, the Mexican Secretariat of the Environment and Natural Resources (SEMARNAT) published in the *Diario Oficial* (Mexico's "Federal Register"), the Official Mexican regulation (NOM-144-SEMARNAT-2004), which establishes the phytosanitary import regulations for unmanufactured solid wood products used as packaging material for imported goods and merchandise. This regulation, or NOM, becomes effective on September 16, 2005 and replaces NOM-EM-144-SEMARNAT-2003, an emergency measure published on November 26, 2003, but never implemented. There are no changes between the emergency rule and the final rule. The regulations of NOM-144 are meant to enforce the International Standard for Phytosanitary Measures No. 15 (ISPM-15) established by the International Plant Protection Convention (IPPC), of which Mexico is a contracting party along with 133 other countries.

Mexico, the United States, and Canada, as members of the North American Plant Protection Organization (NAPPO), a regional organization of the IPPC, are conducting a phase-in of the international standard leading to full enforcement on September 16, 2005. Notice of the amended rules by the U.S. Animal and Plant Health Inspection Service was published in the September 16, 2004 Federal Register. The international regulation applies to the importation of many types of wooden packaging materials such as pallets, crates, boxes, and dunnage. The IPPC standard calls for solid wood packaging material (SWPM) in use in international trade to undergo approved treatments verified by visible identity marks, and are meant to reduce the entry of serious pests associated with SWPM. Surveillance and enforcement of this regulation in Mexico is the responsibility of the Federal Attorney's Office of Protection to the Environment (PROFEPA), the operational section of SEMARNAT, whose personnel will carry out the inspections at corresponding entry points into Mexico.

Title: NOM-144-SEMARNAT-2004 Phytosanitary Measures for Wood Packaging Materials.

Products Affected: Un-manufactured solid wood packaging material (SWPM), including pallets, crates, boxes and dunnage used in commercial trade of goods and merchandise.

Status: Final regulation.

Important Features of the Regulation: The international standard calls for SWPM used in international trade to be either heat treated or fumigated with methyl bromide and marked with an approved international mark certifying treatment. The international treatment certification mark harmonizes the regulations and replaces country-by-country certifications.

Key elements to take in consideration:

- All wood packaging materials must be treated with one or more of the approved phytosanitary measures established in the ruling. To facilitate inspection, the approved treatment identity mark must be easily visible on packaging material upon arrival at entry points to Mexico.
- The approved treatment identity mark does not exempt wood packaging material from further inspection by PROFEPA officials.
- If wood packaging material arrives at Mexican entry points without the approved treatment identity mark, the importer must:
 - A. Prior to entry into Mexico, apply one of the authorized phytosanitary treatments to the packaging material and apply the certification mark.

Substitute with packaging material that complies with the current regulation or use non-wood packaging material and return all non-compliant materials to the exporting country. In this case a PROFEPA official must be present to verify that approved procedures are followed.

Possible areas of concern: PROFEPA currently has limited staff (71 inspectors in total) to cover all entry points into Mexico. Existing PROFEPA personnel might be overwhelmed with the additional inspection responsibilities. PROFEPA officials have stated that in their current condition, PROFEPA inspection points may lack adequate facilities to carry out the import inspection of wood packaging materials as mandated by the international standard. As a consequence, full implementation of the inspection procedure may compound delays in the import process into Mexico. Depending upon inspection procedures followed, additional problems may arise for perishable agricultural products, should the cold chain be broken. In order to comply with the new regulation in an efficient manner, PROFEPA has made a formal written request to the Secretariat of Agriculture (SAGARPA) to have SAGARPA's inspection offices at entry points inspect the wood packaging material used in the import of agricultural products. Currently freight forwarders and Mexican customs agents have yet to undergo special arrangements in anticipation of new inspection procedures.

NAPPO Phase-In: While full enforcement of ISPM-15 is expected to take place on September 16, 2005, the three NAPPO members have reportedly agreed to coordinate a phase-in period prior to this date to help prepare the trade. During phase-in, notices to shippers of non-compliant SWPM may be distributed along with customary phytosanitary inspection and treatment procedures. To date, Mexico has not taken any phase-in action, but SEMARNAT will be providing industry orientation regarding the implementation of NOM 144 in a seminar organized by the National Chamber of the Wood Industry (CNIM) in Mexico City on April 15, 2005. In addition to SEMARNAT and PROFEPA, speakers will also come from the FAO and NAPPO. Likewise, the Association of Maquiladores and Exporters of Chihuahua are seeking a meeting with SEMARNAT with open invitation to all local commercial trade associations to discuss ISPM-15 implementation.

For exporting to the United States, Mexico, and all other countries, must ensure that export systems transporting SWPM meet the requirements set out in this rule. This includes monitoring certification that verifies compliance and establishing inspection procedures or accreditation and auditing of commercial companies that apply the measures.

Trade Impact: The International Plant Protection Convention's (IPPC) ISPM-15 guidelines governing the treatment of solid wood packaging were designed to standardize requirements and meet the pest eradication needs of the 118 countries that were the original signatories to the agreement. Since then, another 16 nations have signed on. The United States, Canada and Mexico, as part of NAPPO, agreed to strictly enforce ISPM-15 starting September 16, 2005. Some trade disruption may occur following full enforcement of the rule if international shippers do not utilize compliant SWPM and to the extent that each country's inspection systems are not prepared to handle the huge volume of international trade.

On April 21, 2003, APHIS/USDA published a "Regulatory Impact Analysis of the Proposed Rule to Adopt the International Standard on Wood Packing Material in International Trade" (refer to internet link at the end of this report). This analysis contains a very detailed assessment of the potential trade impact of this international standard.

According to the APHIS analysis, "the impact of this rule would fall largely on foreign (non-U.S.) manufacturers of pallets" for merchandise shipped to the United States. The increased treatment cost may add to the cost of packaging and transporting of goods, that in turn, would affect U.S. importers of commodities transported on pallets and final consumers of those goods are potentially impacted by this rule. The required treatments would add to the cost of packaging and transport of goods and due to the very large number of pallets that are used to assist imported cargo, the overall cost may be substantial. The extent of the impact on U.S. consumers would depend on the ability of importers to pass on the

additional costs to respective buyers. It is expected that most of the cost of treating pallets for shipments to the United States, will be borne by foreign pallet manufacturers. However, given the small value of pallets as compared to the value of trade, increases in pallet prices are not expected to have a measurable effect on domestic consumers or on trade. As other countries impose IPPC treatment requirements on imports containing SWPM the global SWPM market will be greatly affected. Due to the trend in recycling, domestic manufacturers of exported pallets may be indirectly impacted by the increase in demand for higher quality, treated pallets that would meet re-entry requirements.

The APHIS study further states that in the United States, normal pallet prices vary by region from \$7.00 to \$8.00 and pallet treatment costs for firms using methyl bromide without gas recapture is estimated to average around \$2.00 per pallet. In California and parts of Texas where gas recapture is required, the cost of methyl bromide treatment could be higher by 30 to 50 percent. Heat treatment may be the preferred option of large firms that can afford the high fixed cost of constructing a heat treatment facility. The cost of kiln-drying wood per cubic meter reportedly can range from \$10 to \$20, or about \$2.50 to \$5 per pallet.

In the United States, there are several alternatives to wood packing materials, all of which were developed to meet specific needs rather than as a direct substitute for most wood pallets. Alternatives to wood pallets, which comprise no more than 5 percent of the market, include plastic, corrugated, and panel deck pallets, and slipsheets. Plastic, corrugated and structural wood panel pallets range between US\$15-30.00. Reportedly, there are an estimated 3,000 manufacturers of wooden pallets and containers in the United States and the extent of the impact of ISPM-15 on this industry would depend on the ability of individual firms to put in place the necessary infrastructure for conducting treatment as required by the international standard.

Pallet and Treatment costs in Mexico – In Mexico, the average cost per nationally manufactured pallet is USD\$3.00 and could go up to USD\$4.00 for a treated pallet. Options to SWPM include plastic, plywood, conglomerated wood and corrugated materials in substitution for hard wood, but at a higher cost. SEMARNAT has estimated that the general cost for wood pallet treatment in Mexico could vary from 10 to 15 pesos (USD\$0.90 – 1.40) depending on the type of treatment. As of December 2004, SEMARNAT has authorized over 80 domestic establishments for heat treatment, but only seven for methyl bromide fumigation. Mexico's sources for wood packaging materials come from a combination of domestic hard wood lumber and imported lumber and finished pallets. According to Secretariat of Economy statistics, Mexico imported almost USD\$32 million worth in pallets and wood packaging material in 2003, with over 50 percent sourced from the United States while Chile was the second largest supplier making up 40 percent of the imported value. The U.S. supplied over two million pallets in both 2003 and 2004 according to U.S. trade data. Another source of pallets for Mexico are the millions of units that accompany imported merchandise from its' trading partners.

Industry Awareness - From cursory contact with major U.S. exporters and trade associations, there appears to be a general lack of awareness of the impending enforcement of ISPM-15. However, Internet review of SWPM manufacturers in the United States indicates the opposite is true. Industry associations representing the latter have been circulating updates since the standard was first adopted by the IPPC in 2002. The Foreign Agricultural Service through its' Forest Products Division and APHIS/USDA have likewise maintained a consistent watch on developments regarding ISPM-15 and posts updates on their respective websites.

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International Plant Protection Convention (IPPC): The International Plant Protection Convention (IPPC) is an international treaty to secure action to prevent the spread and introduction of pests of plants and plant products, and to promote appropriate measures for their control. It is governed by the Interim Commission on Phytosanitary Measures (ICPM) which adopts International Standards for Phytosanitary Measures (ISPMs). The IPPC Secretariat coordinates the activities of the Convention and is hosted by the Food and Agricultural Organization (FAO). The United States, Canada and Mexico and 131 other countries are contracting parties to the IPPC. (<http://www.ippc.int/IPP/En/default.htm>).

North American Plant Protection Organization (NAPPO): <http://www.nappo.org>

Implementation of ISPM No. 15 on Wood Packing Materials in NAPPO countries:

<http://www.nappo.org/Standards/Woodpacking-bil1.htm>

“Regulatory Impact Analysis of the Proposed Rule to Adopt the International Standard on Wood Packing Material in International Trade”,

Policy and Program Development, APHIS/USDA, Revised April 21, 2003:

www.aphis.usda.gov/ppq/swp/SWPMRIA42103.PDF

American Lumber Standards Committee (ALSC)

http://www.alsc.org/WPM_summary_mod.htm

National Wooden Pallet and Container Association (NWPCA)

<http://www.palletcentral.com/ExportTreatment/ExportTreatmentProg.asp>

FAS Internet Connections: Visit our headquarters home page at www.fas.usda.gov

FAS Forest Products Division: http://www.fas.usda.gov/ffpd/wood_trade_policy.htm

Useful Mexican Web Sites: Secretariat of the Environment and Natural Resources web site can be found at www.semarnat.gob.mx. This web site is mentioned for the reader's convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained in the mentioned site.

Mexican government office receiving comments: The Mexican Secretariat of the Environment and Natural Resources (SEMARNAT).

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