Bi-weekly Bulletin

May 12, 2000 *Vol. 13 No. 8*

MEXICO

Since the North American Free Trade Agreement (NAFTA) was reached in 1994, Canadian exports of agricultural products to Mexico have increased significantly, especially for canola, malting barley, and special crops. The increase in bilateral trade has made Canada the second largest market for Mexican exports, while Mexico has now become Canada's third largest trading partner after the US and Japan. For 2000-2001, imports from Canada are expected to increase and be supported by lower tariff rates under NAFTA. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canada's exports of grains, oilseeds, and special crops to Mexico.

ECONOMY

The economy of Mexico has undergone significant changes since NAFTA was implemented in January of 1994. Due to the large current account deficit and reversal of short-term capital flows, the peso was floated and debt was restructured in December of 1994. This encouraged total exports and decreased imports resulting in a trade surplus of US$7 billion in 1995 from a US$19 billion trade deficit in 1994. Total agri-food trade between Canada and Mexico has increased to about CAN$850 million in 1999 from about CAN$660 million in 1994.

After the collapse of the peso, a number of significant structural changes have been introduced in Mexico to liberalize trade and improve the investment climate. Mexico has diversified its economy by gradually increasing the percentage of revenues from manufacturing exports compared to oil export revenues. This has decreased Mexico's reliance on world oil prices as a factor of its economic stability. There was an increased focus on privatization and a shift out of government ownership. The Mexican government introduced programs to increase both private investment and foreign direct investment for infrastructure. Efforts were also made to reduce the federal deficit and decrease government spending. The result was increased economic growth and a dramatic drop in the rate of inflation. The devaluation has worked its way through the system and the economy has stabilized. Macroeconomic stabilization policies and floating exchange rate regimes have reduced inflation significantly, while interest rates have moderated substantially. By mid-1997, the government had restructured its debt, with longer payment periods and lower interest rates.

Currently, the Mexican economy continues to strengthen due to the increasing world oil prices combined with continued conservative monetary and fiscal government policies. However, the financial sector has weakened due to high interest rates and a poor loan portfolio ratio. This has resulted in a decrease in capital inflows. Mexico has pursued free trade agreements with other nations to expand trade and lessen its dependance on the US market. Agri-food trade with Canada and other countries is expected to continue to increase, as domestic demand continues to increase despite Mexico's inability to expand production significantly.

LAND BASE

The majority of corn and dry beans are grown on small farms, about 2 hectares in size, in the central plateau region, where 25% of Mexico's arable land is located. In contrast, wheat, durum, and soybeans are grown on large irrigated farms, allowing for wheat yields of about 6.5 tonnes per hectare (t/ha), mainly in the north and northwest regions of Mexico. Southern tropical areas produce rice, coffee, and sugarcane on large commercial farms. About 77% of the arable land in Mexico is cultivated per year. The remaining land contains steep slopes, preventing extensive mechanization.

AGRICULTURAL POLICY DEVELOPMENT

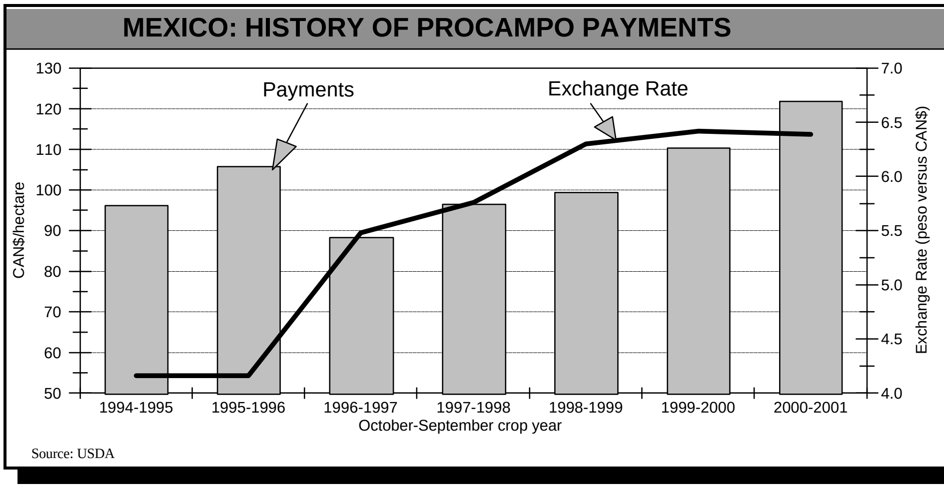
In 1993, *Programa de apoyo directo al campo* (PROCAMPO) was introduced by *Apoyos y Servicios a la Comercializacion Agropecuaria* (ASERCA), the agency for farm supports and services, in compliance with the forthcoming NAFTA. It is intended to: (1) provide income support for producers, (2) reduce the resource allocation distortions created by guaranteed prices, and (3) encourage farmers to shift into the production of crops for which they have a comparative advantage. The program initially provided direct cash payments at planting time on a per hectare basis to growers of the following crops: corn, dry beans, wheat, rice, sorghum, soybeans, safflowers, cotton, and feed barley. Producers with land planted in these nine crops in the 1993 census qualified for payments. The eligible area was fixed in 1995-1996 as part of the Alliance of Agriculture program, and producers were free to grow other crops on

MEXICO: ECONOMIC STATISTICS

	1995	1996	1997	1998	1999e
Population (million)	91.2	93.0	94.7	96.7	98.0
GDP (US$ billion)*	287	335	408	420	473
Exchange rate (pesos/US$)	6.5	7.6	7.9	9.3	9.7
Inflation rate (%)*	52.0	27.8	15.7	18.6	13.0

Land area: 195.3 million square kilometres
Arable land: 30 million square kilometres

* International Monetary Fund
e: AAFC estimate, May 2000
Sources: FAO, AAFC



the subsidized land, in response to market conditions. PROCAMPO estimates that for 2000-2001, approximately 13.5 million hectares (mln ha) will be eligible for a payment of CAN$121.75 per hectare. These payments will remain in place until 2008.

In 1994, the NAFTA was implemented between Mexico, Canada, and the US. Although the NAFTA will remove virtually all tariffs between the member countries by 2003, each has been allowed to protect some priority industries for limited periods of time. The NAFTA has opened up the Mexican economy to international competition and forced producers to align their prices with world markets. Previously, Mexican crops were marketed through a government agency until direct payments were established in the early 1990s to facilitate the elimination of market price supports. Five years into the NAFTA, trade between Canada and Mexico has increased 110% and is forecast to grow by an additional 200% during the next 5 years.

In 1995, the Alliance for Agriculture program was designed to build upon PROCAMPO and cover areas such as: (1) modernization of irrigation systems and mechanization, (2) improved varieties of corn and dry beans, (3) livestock sector support, (4) producer training and extension programs, (5) poverty alleviation programs, and (6) technology programs. Also, in 1995, free trade agreements were signed with Columbia and Venezuela within the framework of the Group of Three. Separate agreements were signed with Costa Rica and Bolivia. These agreements have had minimal effects on trade.

In 1996, government storage facilities established to maintain agricultural product stocks and to store corn, were sold to private investors and producers under the mandate of privatization.

In 1997, PROGESSA was initiated to improve living standards for low-income families, especially in rural areas, by providing access to services such as health, nutrition, water, drainage, and electricity.

In 1998, a free trade agreement was signed with Nicaragua resulting in the tariff elimination on 45% of Mexican exports and 77% of Nicaraguan imports, but trade has not been significant.

In 1999, government control of tortilla prices, which was previously regulated due to the importance of tortillas in the Mexican diet, was eliminated. However, the Mexican government has an informal agreement with the tortilla industry to keep prices affordable for the low-income family. The closure of the national basic food company, *La Compañía Nacional de Subsistencias Populares* (CONASUPO), which previously intervened in corn and dry bean markets, allowed prices to be set by free market conditions and reduced the role of government agencies. Under NAFTA, tariff rate quotas (TRQ) for corn and dry beans will be removed over a period ending in 2008.

In March 2000, Mexico and the European Union (EU) reached a free trade agreement, which calls to reopen negotiations on all major crops and products by no later than 2003 in an attempt to come to an agreement on tariff reductions. It is expected to increase agricultural trade between the EU and Mexico, improve the supply of goods and services, intensify foreign investment, facilitate access to state-of-the-art technology, and could potentially impact the market share of Canada and the US.

INFRASTRUCTURE

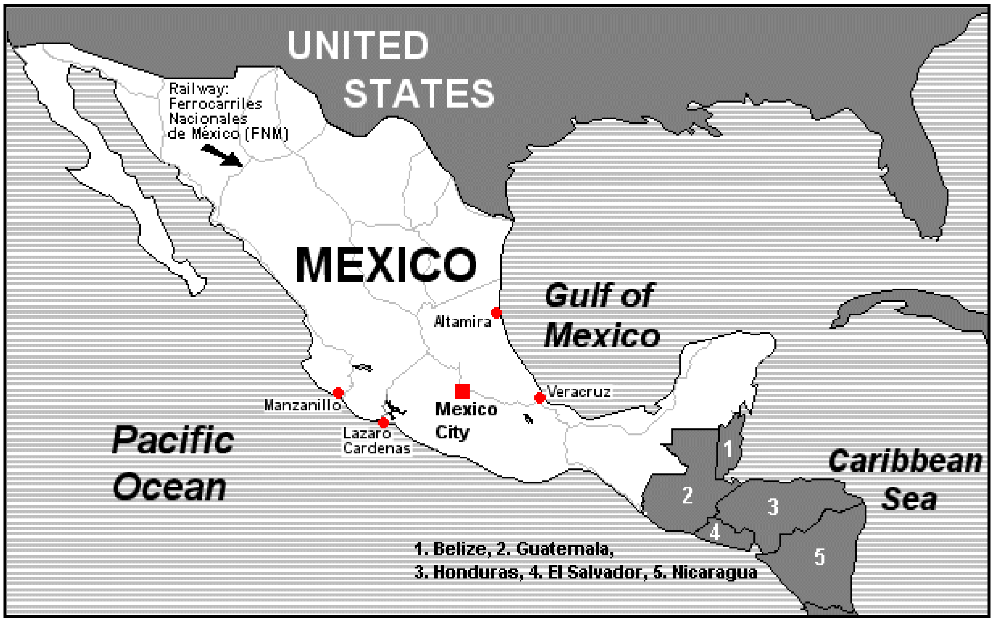
Truck transport handles about 70% of total Mexican imports due to modernization of the Mexican road system. Under NAFTA, Canadian and US truck operators should have been able to transport cargo to all the Mexican states by 1995. However, Mexico has delayed this process because of issues with Mexican transport unions concerning the restricted entry of Mexican trucks into the US.

For **railroads**, about 80% of Mexico's freight is now handled by private operators. The introduction of a pre-clearing system by Mexican customs has improved rail efficiency and border crossing times. Shipments can move across the border in less than 24 hours. For **ports**, the grain handling capacity has increased in recent years because of the reorganization of port operations and an increase in grain terminal capacity at specific ports.

MEXICO: CROPS

Oct.-Sept. crop year [1/]	1990 -1994 [2/]	1994 -1998 [2/]	1998 -1999	1999 -2000f	2000 -2001f
	....	million tonnes	....		
Corn					
Production	16.6	17.7	17.6	19.0	19.0
Consumption	17.7	21.9	23.0	23.1	23.6
Imports	1.3	4.3	5.6	4.6	5.0
Sorghum					
Production	3.6	5.3	6.4	6.4	6.4
Consumption	7.5	7.5	9.8	10.7	10.5
Imports	3.8	2.4	3.3	4.0	4.0
Wheat					
Production	3.8	3.6	3.2	3.1	3.3
Consumption	4.8	5.0	5.5	5.6	5.4
Imports	1.1	1.8	2.5	2.7	2.6
Soybeans					
Production	0.6	0.2	0.1	0.1	0.1
Consumption	2.6	2.8	4.0	4.1	4.3
Imports	1.9	2.6	3.8	4.0	4.2
Barley					
Production	0.5	0.4	0.4	0.5	0.5
Consumption	0.7	0.6	0.6	0.7	0.8
Imports	0.1	0.2	0.2	0.3	0.3

[1/] except wheat which is July-June
[2/] four year average
f: forecast, Corn and Sorghum: USDA May 2000;
Wheat and Barley: AAFC May 2000; Soybeans: USDA May 2000;
Sources: USDA



SITUATION AND OUTLOOK

Wheat

For **1999-2000**, wheat production decreased to 3.1 million tonnes (Mt), slightly below 1998-1999 due to lower area seeded and yields related to dry conditions. Imports are forecast to increase to about 2.0 Mt from the US, partly due to the assistance of the US Export Credit Guarantee Program (GSM-102), and 0.7 Mt from Canada, from a total of 2.5 Mt in 1998-1999. In 1998, the Canadian Wheat Board (CWB) signed a supply agreement with Grupo Industrial Bimbo of Mexico City to supply Western Canadian spring wheat over a three year period. Mexican millers prefer the high quality of Canadian wheat, which is blended to improve domestic flour quality. Imports from Canada and the US are favored under NAFTA whereby the tariff rate quota for both wheat and flour is 4.5% per kilogram compared to the non-NAFTA tariff of 67% for the year 2000.

For **2000-2001**, area seeded and average yields are expected to increase, assuming a return to normal growing conditions. Since production is forecast to increase, imports are expected to decrease slightly from 1999-2000. Canada's share of the Mexican wheat market is expected to remain similar to 1999-2000.

Durum

Due to high internal transport costs and high crop quality, Mexico has become an exporter of durum in recent years. Mexican livestock producers have used durum as a major feed ingredient in hog rations when there is a surplus of low-quality durum.

In March 2000, the Mexican government announced it would conduct an auction to provide subsidy assistance for 0.3 Mt of durum exports for the fall/winter 1999-2000 crop as part of PROCAMPO. Bidders must pay about CAN$320 to participate and bids will be awarded based on export quantity and size of subsidy.

For **1999-2000**, durum production increased to 1.1 Mt, slightly above 1998-1999 due to ample reservoir water levels. Exports are expected to increase to 0.5 Mt, from 0.35 Mt in 1998-1999. Mexican durum has proved more disease resistant than other wheat varieties.

For **2000-2001**, Mexican durum exports are forecast to continue to increase as Mexican producers continue to export durum to international markets such as North Africa and western Europe.

Barley

Mexico is the eighth largest beer producer in the world and in 1998 domestic beer production reached 58 million hectoliters. In the last 25 years, beer consumption has increased substantially. Currently, consumption of beer in Mexico is 50 liters per capita. An increase in consumption to 55 liters per capita would require an additional 0.1 Mt of malting barley.

For **1999-2000**, while barley production, consisting mainly of six-row varieties, increased slightly to 0.5 Mt, consumption is expected to increase 15% to 0.73 Mt due to increased beer production in Mexico. As a result, Mexican malting barley imports are expected to increase significantly to 0.28 Mt. Canada is forecast to increase exports of barley to Mexico by about 75% to 0.1 Mt in 1999-2000, due in part to the poor quality of the US malting barley crop. Generally, Canadian barley exports to Mexico consist of 80% malt barley and 20% malt. The remainder of Mexico's imports of malting barley are sourced from the US and the EU.

Under NAFTA, Canada's 2000 tariff rate quota for malt and barley, combined, is 40,202 tonnes (t) with an over quota tariff of 72.96%. However, Mexican brewers can apply for exemptions from the TRQ if they import over the quota or if supplies from US and Canada are not available. Recently, the CWB suggested that malt be removed from the quota restriction, and under the World Trade Organization Uruguay Meetings, countries agreed to eliminate the tariff on beer by the year 2002.

For **2000-2001**, barley production is forecast to remain similar to 1999-2000 due to increased seeded area and yields. Canadian barley exports to Mexico are expected to increase 18% due to a continued increase in domestic beer production.

Canola

Mexico is a major importer of oilseeds for processing in their domestic crushing industry to offset the deficit between its vegetable oil consumption and its domestic production. Due to canola's high oil content, compared to soybeans, it has been an attractive import for Mexico. The low demand by domestic livestock users for the resulting canola meal has improved in recent years and has been reflected in Canadian canola exports to Mexico. Canada is currently conducting market development for canola meal through a series of poultry feeding trials, by attending trade conferences and by planning informational seminars. Mexican crushers have markets for canola oils and will import canola when it is price competitive and when more markets are available for canola meal.

For **1999-2000**, Mexican imports of canola are forecast to reach 0.85 Mt. Mexico is Canada's third largest canola export market after Japan and China. Canada is forecast to increase exports of canola to Mexico by about 10% to 0.58 Mt in 1999-2000. All oilseeds, except safflower seed, are tariff free while crude vegetable oils of NAFTA origin are currently subject to a 7% tariff. Non-NAFTA imports are subject to a 10% tariff.

For **2000-2001**, Mexican canola imports are forecast to increase due to the expectation that vegetable oil consumption will continue to rise over the medium-term. Canadian exports of canola are forecast to increase despite competition from the EU and Australia.

Special Crops

Mexico's total imports of **canary seed** have been trending upward, with about 50,000 t imported in 1998-1999. Canada's share of the market has been increasing and reached 35,000 t in 1998-1999. In 1998-1999, Mexico became the largest export destination for Canadian canary seed. For **1999-2000**, Canadian exports are forecast to increase to 38,000 t.

Mexico's total imports of **lentils** have been trending upwards with about 28,000 t imported in 1998-1999. Canada's share of the imports has been trending upwards and reached 12,000 t in 1998-1999. For **1999-2000**, Canada's exports of lentils are expected to increase sharply to 23,000 t as Canada becomes the main supplier.

Total imports of **dry beans** have varied depending on domestic production. In 1998-1999, imports were low at about 70,000 t but Canada's share has increased to 2,000 t. Total **dry pea** imports have been stable, however Canada's share has increased to about 40%, reaching 7,000 t in 1998-1999. Total **sunflower seed** imports have decreased in recent years. However, Canada's share has been increasing, reaching 2,000 t in 1998-1999. Mexico imports mainly confectionary sunflower seeds from Canada. For **1999-2000**, Canadian exports of dry beans and dry peas are expected to increase to 2,500 t and 9,000 t respectively, while sunflower seed exports are expected to remain stable at 2,000 t.

For **2000-2001**, total Canadian exports of special crops are forecast to increase due to growing demand and a continuing shift to Canada as a major supplier. The largest increase is expected to be for lentils and dry peas, as the Canadian share of Mexico's imports increases. Smaller increases are forecast for canary seed, sunflower seed, and dry beans. Under the NAFTA agreement, a 15 year transition period was established for the import of dry beans from the US and Canada ending in 2008. Canada has a TRQ of 1,791 t and an over quota tariff of 93.9% for dry beans in 2000. Dry beans imported for seeding, already have a zero tariff rate. The Mexican demand is mainly for coloured beans. Canadian dry bean exports are expected to trend upwards during the next decade as a result of the increasing TRQ and declining tariff rate, which will be eliminated in the year 2008. There are no tariffs for the other special crops imported from Canada.

Pork

Mexican hog and pork production has decreased in recent years because of reduced net returns to producers as a result of lower prices, inflation and increased feed costs and US competition. This has led to vertical integration and currently large producers dominate Mexican hog production.

For **1999-2000**, Mexican pork production is expected to increase 2% to 0.97 Mt from 1998-1999. Hog numbers for 1999-2000 are expected to also remain similar to 1998-1999 at 14.8 million head (mln hd). Per capita consumption is estimated at 9.6 kg and is expected to increase over the medium-term. Canadian pork exports are forecast to increase 20% to 10,500 t in 1999-2000 due to the superior quality standards and market promotion of Canadian pork. The safeguard quota for pork and hogs is 8,041 t and 1,340 head, respectively for 2000 at a 6% tariff and the over quota tariff of 20%. However, Canadian hog exports are forecast to decrease 25% to about 4,100 head in 1999-2000 due to pressure from Mexican producers to reduce imports in a sector dominated by the US, which account for about 90% of Mexico's hog and pork imports.

For **2000-2001**, the currently improving Mexican consumer purchasing power is creating demand for variety pork meats. Mexican pork imports are expected to increase as Mexican sausage and cold meat companies favour Canadian and US pork products due to high consistency and quality.

Beef

The Mexican cattle herd and beef production has remained stable throughout the 1990s as per capita consumption has decreased slightly to 19.6 kg and has offset population growth.

For **1999-2000**, Mexican cattle inventories are forecast to remain similar to 1998-1999 at 8.5 mln hd while 1999-2000 domestic beef production is expected to increase 5% to 1.9 Mt from 1998-1999. Canadian cattle imports are expected to decrease 35% to 3,500 head, however, imports of Canadian beef are forecast to increase nearly 200% to 12,800 t due to Canada's superior quality of beef.

For **2000-2001**, Mexican beef consumption is forecast to increase slightly to support its high quality and frozen food demand from the tourist and restaurant sector and lower value beef for the lower income populations.

Over the medium-term, Mexico is expected to increase its reliance on imports of value-added agricultural food products and bulk commodities as demand increases. This is due to growth in income and the high proportion of the population in the "less than 30 age bracket". Canada is expected to be well positioned to continue to service the Mexican import market for wheat, malting barley, canola, beef, pork, and special crops.

For more information, please contact:

Bobby Morgan
Market Analyst
Phone: (204) 984-0680
E-mail: morganb@em.agr.ca

Market Analysis Division Website:

http://www.agr.ca/policy/winn/biweekly/index.htm

MEXICO: IMPORTS OF GRAINS AND OILSEEDS FROM CANADA

August-July crop year	1990 -1994 [2/]	1994 -1998 [2/]	1998 -1999	1999 -2000f	2000 -2001f
	...................thousand tonnes...................				
Wheat	508	563	676	700	700
Canola	142	494	529	575	650
Barley [1/]	31	29	62	110	125

[1/] feed barley: 1990-1997; malting barley: 1998-2001
[2/] four year average
f: AAFC forecast, May 2000
Sources: Canadian Grain Commission

The Bi-weekly Bulletin is published by the:
Market Analysis Division,
Policy Branch,
Adaptation and Grain Policy Directorate,
Agriculture and Agri-Food Canada.
500-303 Main Street
Winnipeg, Manitoba R3C 3G7
Telephone: (204) 983-8473
Fax: (204) 983-5524

Director: Maggie Liu
Chief: Fred Oleson

Aussi disponible en français.