



Bi-weekly Bulletin

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MEXICO: PORK

Mexico pork imports are projected to increase significantly over the medium-term, due to rising per capita pork consumption, population growth, an expanding middle-class, and an increasing domestic pork deficit. Growth of the Canadian hog industry, Canada's reputation for a consistent and high quality product, and the elimination of Mexico's pork import safeguard tariff will result in increased Canadian exports of pork to Mexico. This issue of the *Bi-weekly Bulletin* examines Mexico's pork supply and demand situation and outlook, and the implications on western Canadian pork exports and feedgrain demand.

NAFTA and Trade

In 1994, Canada, the United States (US), and Mexico formed the world's largest free trade area when the *North American Free Trade Agreement* (NAFTA) came into effect. Mexican imports of Canadian agriculture and agri-food products have increased from about US\$432 million (M) in 1996 to about US\$786M in 2001. This represents about 7% of total Mexican agri-food imports. The US maintains approximately 75% of the Mexican market, however, this includes trans-shipment of Canadian products through the US.

Historically, Canadian exports to Mexico have been dominated by bulk commodities such as grains and oilseeds. However, exports, in just three years, have diversified to include a higher percentage of value-added

products. In 2001, bulk commodities represented about 42% of total agri-food exports compared to about 62% in 1998. While grains and oilseeds exports have continued to rise during this period, meat and meat products have accounted for the majority of the increase in exports. Meat exports to Mexico have soared from a value of CAN\$12M in 1998 to over CAN\$272M in 2001. In 2001, red meat exports accounted for almost 30% of the total exports by value and approximately 92% of the increase in exports since 1998. Mexico now ranks as Canada's third largest pork export market and accounts for approximately 13% of all Canadian pork and pork product exports.

MEXICO

Elimination of Tariffs

As established in Article 703.3 of NAFTA, Mexico has applied a safeguard quota tariff on live hogs and pork from Canada since 1994. Since 1994, the allowable annual quota for swine, pork products, and fresh and frozen pork has increased by 5% per year, translating into higher exports. Beginning in 2003, these tariffs are scheduled to be eliminated which is expected to provide Canadian pork producers with increased access to meet Mexico's expanding needs. However, there is increasing domestic pressure for the Mexican government to provide some financial assistance to Mexican pork producers in view of the expected increase in exports from the US and Canada.

NAFTA SAFEGUARD QUOTAS ON PORK*: CANADA TO MEXICO

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Quota (tonnes)	6,000	6,300	6,615	6,946	7,293	7,658	8,041	8,443	8,865	unlimited
Tariffs: In Quota	18%	16%	14%	12%	10%	8%	6%	4%	2%	0%
Out Quota	20%	20%	20%	20%	20%	20%	20%	20%	20%	0%

* fresh or frozen

Source: Canadian Embassy in Mexico City

Pork Demand

Pork has always been an important component of the Mexican diet. Per capita consumption of pork in 2001 was about 11 kilograms (kg) and is expected to increase modestly to about 12.5 kg by 2005. Consumption is expected to increase in part, because pork is expected to become increasingly more price competitive versus beef. In addition, a slowing economy creates a demand for pork, because it encourages substitution from more expensive beef, to pork. This growth however, will be constrained by competition from lower priced poultry.

Pork demand is expected to continue to increase due to the growth of the Mexican middle class, a market which has grown to over 20 million people and is expected to continue to grow. About 50% of Mexico's population is between the ages of 15 and 44, an age group which is moving to the cities in greater numbers and purchasing a larger proportion of their food requirements at large retail markets and convenience stores. Canadian pork imports are traditionally sold in these large retail stores and the increasing levels and regularity with which consumers purchase pork in such retail markets should translate into higher demand for Canadian pork.

In Mexico, over 60% of all food products are now purchased in supermarket chains. Supermarket sales for 2001 have risen by 10% over the level in 2000. Sales of consumer products have increased by 269% from 1998 to 2001, from about \$84M to over \$309M, respectively. The growth is due in part to the larger number of women that have joined the workforce. The continuation of this trend is expected to increase the demand for ready cut pork supplied by the large retail stores.

The Mexican Pork Sector

Mexican hog producers are classified by the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA), according to the level of technology they employ. These are described as technified, semi-technified and family units.

The **technified** producers account for about 60% of Mexican pork production. They maintain specialized sites, and operate under strict controls. Reproduction techniques and genetics play an important role. This sector is able to meet the sanitary inspection standards at the federally inspected slaughter facilities known as Tipo Inspeccion Federal (TIF). Ownership of the technified producers is dominated by large vertically-integrated companies who are best able to comply with the

standards of the TIF because they control the entire process from hog production to distribution.

Semi-technified producers take only limited advantage of advanced breeding methods. Sanitary control is generally deficient and genetic quality and production tends to be lower. These producers account for approximately 20% of total production.

Family production of pork is still common in Mexico, accounting for about 20% of production. Sanitary problems are quite common and production quality is quite low.

Until 1988, the Mexican pork industry developed under the protection of government-imposed price controls and import restrictions. The end result was the development of an inefficient industry, comprised of many small producers that were ultimately unable to meet the nation's growing needs.

In 1988, price controls were eliminated and imports were allowed. This forced the pork industry to become more efficient through the expansion of large vertically and horizontally integrated production companies. As a result, the continued expansion of these large vertically integrated companies has offset the loss of many medium and small sized farms which were not competitive under the cost/price structure of the industry. A larger number of TIF plants plus further integration of swine producers, slaughtering and marketing activities are expected to contribute to Mexico's expanding pork production in future years.

Despite these efficiency gains, the industry is still not able to keep pace with increasing pork consumption demands. Production in 2002 is expected to increase by about 1.3%. Total use is expected to increase by about 2% and 7 to 10% in the following years. Over the next four years Mexico's pork import needs are expected to increase, due to rising consumption, population growth and a growing middle-class. Projections by the Universidad Autonoma Chapingo in Mexico show the deficit in pork

MEXICO: PORK SUPPLY AND DISPOSITION

	1999	2000	2001	2002e	2003f
thousand tonnes.....				
Production	994	1,029	1,143	1,158	1,218
Imports from:					
Canada	18	32	38	42	46
US	228	298	314	339	379
Other	28	2	13	13	13
Transshipments*	28	31	31	30	36
Total Imports	302	363	396	424	474
Total Supply	1,296	1,392	1,539	1,582	1,692
Exports	26	32	36	43	47
Domestic Use	1,270	1,360	1,503	1,539	1,645
Total Use	1,296	1,392	1,539	1,582	1,692

* Transshipments = Mexican Secretariat of Agriculture Canadian - Statistics Canada import statistics.

e: estimate, AAFC, October 2002

f: forecast, AAFC, October 2002

Source: Mexican Secretariat of Agriculture except for *Imports from Canada* which are Statistics Canada.

production could rise from an estimated 424,000 tonnes (t) in 2002 to 663,468 t by 2006.

Preference for Canadian Pork

Several of the largest pork processors in Mexico buy imported pork because of the shortage of carcasses that meet TIF sanitary inspection standards. They have a positive perception of the

Canadian industry and know they can expect a consistent product. Canada produces high quality pork, that is, a very lean carcass with very good meat quality and has a positive international image in this regard. This is, to a large extent, due to years of testing and selection as part of our Canadian Swine Improvement Program. In western Canada, the use of higher levels of barley in feed rations

creates a firmer, whiter fat, which is ideal for processing use. Mexican consumers are very price conscious and the quality advantages of Canadian pork are often not perceived. Point-of-sale product promotion is common in Mexico which can provide additional opportunities to promote Canadian quality, leanness, shelf life, and taste.

WESTERN CANADA: FEED USE

Historically, abundant supplies of feedgrain, related to relatively low land and production costs, have made western Canada one of the lowest cost pork production areas in the world. The hog industries in the three prairie provinces have plans to continue to expand hog production. In Manitoba, total hog production is expected to increase from 6.3 million head (Mhd) in 2001 to 9.0 Mhd by 2005. In Saskatchewan, a relatively modest growth rate of 12% per annum will increase production from about 1.7 Mhd in 2001 to a projected 2.7 Mhd by 2005. In Alberta, production was about 3.6 Mhd in 2001 and is projected to reach 4.5 Mhd by 2005.

Feed Use

In general, 1 t of feedgrain is required to produce 3 hogs to market. In 2001, total western Canadian hog inventories were 11.6 Mhd which implies feed consumption demand of almost 3.9 Mt. By 2005, hog feed demand is forecast to require about 5.4 Mt of feedgrains, based on inventory projections of 16.2 Mhd. Western Canada can fill the feedgrain requirement by diverting a higher percent of total grain production to feed use and/or by importing corn, such as in 2001-2002, when drought conditions reduced domestic feedgrain supplies.

Value-added

As a value-added success story, hog expansion in western Canada has provided increased economic activity and sustainability to rural economies. Prairie hog industry growth has contributed to increasing levels of domestic feed use. In turn, this has diverted feed barley from the export market to the domestic feed market. In 1990-1991, the western Canadian domestic feed market consumed about 7.3 Mt of barley. By 2001-2002 consumption was over 9.0 Mt. At the same time, feed barley exports were reduced from about 4.1 Mt in 1990-1991 to just 56,000 t in 2001-2002.

Lower exports

The domestic market can provide higher on-farm returns to barley producers because it entails lower freight and handling charges when compared to the export market. As a result of the removal of the *Western Grain Transportation Act* in 1995, the costs of exporting grain from western Canada, the eastern prairies in particular, increased substantially. This significantly increased the economic advantage of utilizing the grain on the prairies for livestock feed rather than for export. In addition, the off-Board market provides full payment upon delivery whereas producers delivering to the Canadian Wheat Board (CWB) pool must wait several months for the final payment. For 2002-2003, due to the small size of the crop and shortage of feedgrain, off-Board prices have increased substantially and most of the barley will be delivered to the off-Board market. As a result, CWB feed barley exports, are expected to be negligible.

Corn Imports

In years with normal growing conditions and yields, western Canada produces more than enough barley to support its livestock feed requirements. Low barley supplies in 2001-2002 due to drought conditions, have led to an estimated record import of 2.0 Mt of US corn into western Canada to fill the livestock feed requirement. For 2002-2003, the continuation of drought in western Canada resulted in the lowest domestic barley production since 1968. US corn imports into western Canada are expected to set a new record at 3.1 Mt. Canada's total corn imports are forecast at 5.0 Mt which will make it the fifth largest corn importer globally. In comparison, during normal growing years, such as in 1999-2000, Canadian corn imports were only 1.1 Mt.

Western Canada imports the majority of its corn from Minnesota, North Dakota, Montana, and South Dakota. The United States Department of Agriculture October 20, 2002 *Crop Progress Report* indicates that both production and quality for these four states in 2002 are expected to be above-average. Therefore, hog producers in western Canada will have access to ample supplies of US corn at competitive prices.

Processing capacity

In 1998, hog prices fell dramatically when North American production surpassed processing and kill and cut capacity. Currently, western Canada has excess processing capacity and its hog expansion efforts should not adversely affect prices.

Mexican pork processors are interested in creating alliances with foreign producers as a means of improving their cost competitiveness and quality standards. The Canada Trade Mission to Mexico in June 2002, led by International Trade Minister Pierre Pettigrew, was successful in creating stronger trade ties with Mexico. Accompanying delegates made valuable business linkages and signed numerous agreements which will enhance trade within the framework of NAFTA.

One of the significant agreements announced was a letter of intent between Pure Lean Pork Inc., of Medicine Hat, Alberta and Agropecuaria Sapomora S.P.R. de R.L. of Navajo, Mexico, to participate in a joint venture to use Pure Lean's new hog production and biowaste composting systems. The first joint venture outside of the Prairies for Pure Lean Inc., valued at CAN\$2.0M, is considered an excellent opportunity for production expansion internationally. Growing vertically integrated companies that need to fill gaps in their production lines provide such opportunities.

CANADA

Pork Exports

Canadian exports of pork to Mexico have increased dramatically since the inception of NAFTA. Exports have risen in unison with the escalating safeguard quotas. For example, from 1999 to 2001, the quantity of Canadian pork exports increased from 18,025 t to more

than 37,846 t. This does not account for possible transshipments from Canada through the US. Import statistics from the Mexican Secretariat of Agriculture indicate that imports from Canada in 1999 and 2001 were as high as 46,000 t and 69,000 t respectively.

The largest pork exports to Mexico were recorded in western Canada where exports increased from 4,068 t in 1999 to 23,578 t in 2001, an increase of almost 480%. Western Canada now accounts for over 62% of all pork exported to Mexico. This trend is expected to continue.

The majority of the new hog production in Canada over the last four years has been located in western Canada. Manitoba's sales during the 1999-2001 period have increased from 1,655 t to 19,955 t. Likewise, Alberta's exports have risen from 1,581 t to 3,418 t.

Outlook

Western Canadian hog production is expected to continue to expand despite higher feed costs this year due to the drought. The elimination of the safeguard quota on imports into Mexico should provide increased market access for Canadian pork exports. Mexican pork consumption is expected to increase due to an expanding middle class, higher per capita consumption and a slight shift from beef to less expensive pork. As a result, Canadian pork exports to Mexico in 2003 are expected to surpass the record estimated for 2002.

By 2005, Canadian pork and pork products exports to Mexico could easily surpass 100,000 t (including transshipments) assuming US market share in Mexico remains at about 80%. Over the medium-term, kill and cut capacity in western Canada will have to expand to keep pace with the expanding hog industry and increasing pork exports to Mexico.

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MEXICO: PORK IMPORTS FROM CANADA					
	1999	2000	2001	2002e	2003f
thousand tonnes.....				
Alberta	1.6	2.4	3.4	3.8	4.2
Manitoba	1.7	9.6	20.0	22.4	24.6
Ontario	7.7	7.7	6.9	7.0	7.2
Quebec	<u>5.0</u>	<u>8.5</u>	<u>7.3</u>	<u>7.5</u>	<u>7.7</u>
Total	18.0	31.5	37.8	41.6	45.8

e: estimate, AAFC, October 2002
f: forecast, AAFC, October 2002
Source: Statistics Canada

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