Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

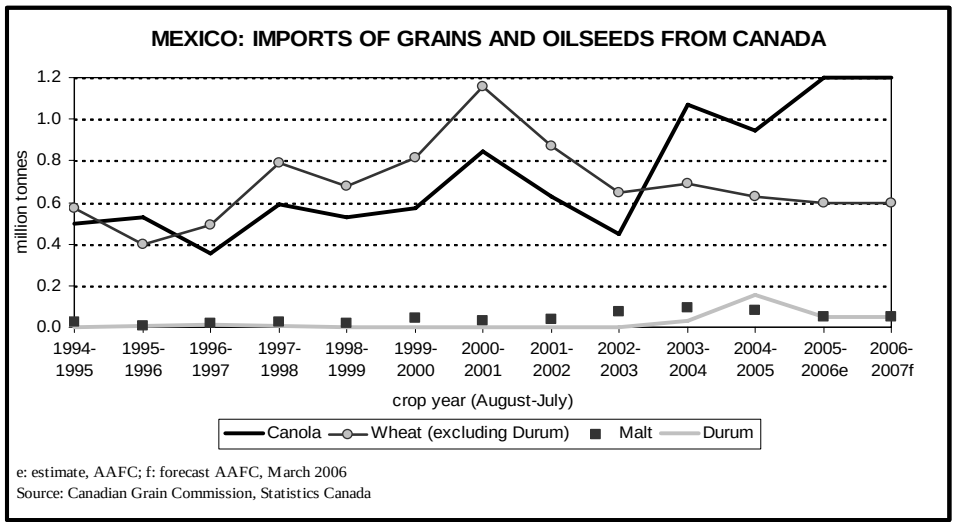
Bi-weekly Bulletin

March 31, 2006 Volume 19 Number 6

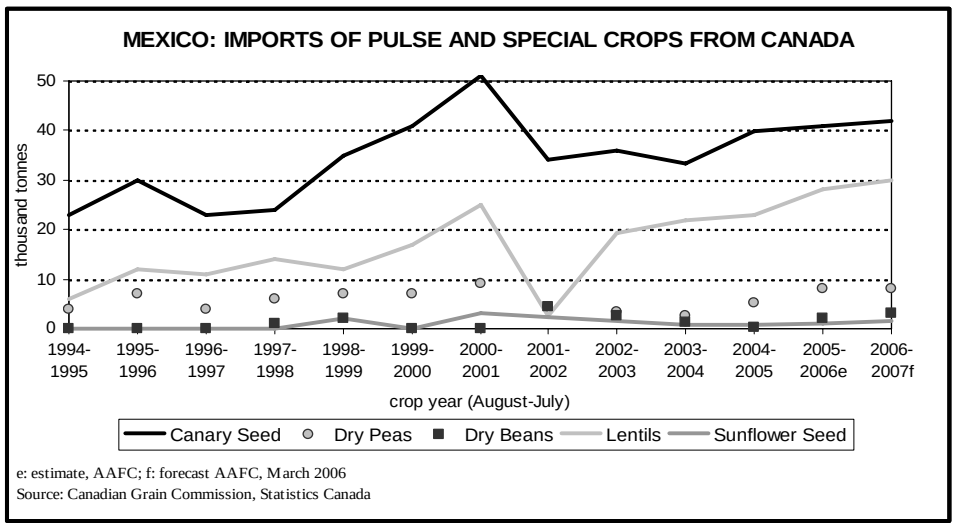
MEXICO

Trade between Canada and Mexico has increased significantly since the implementation of the *North American Free Trade Agreement* (NAFTA) between the United States (US), Canada and Mexico in 1994. Mexico has become Canada's fourth largest agriculture and agri-food export market and Canada is now the third largest market for Mexico's exports. For 2004-2005, Canadian agri-food exports to Mexico were CAN$995 million versus imports from Mexico of CAN$635 million. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canada's exports of grains, oilseeds, pulses and special crops to Mexico.

Mexico has the sixth largest agricultural sector in the Organisation for Economic Co-operation and Development (OECD), which it joined in 1994. Corn and beef are its main agricultural commodities. Primary agriculture still accounts for 6% of Gross Domestic Product (GDP), compared to 2% in Canada and the US. More importantly the agricultural sector employs 19% of the work force compared to 5% in Canada and 3% in the US.



e: estimate, AAFC; f: forecast AAFC, March 2006
Source: Canadian Grain Commission, Statistics Canada



e: estimate, AAFC; f: forecast AAFC, March 2006
Source: Canadian Grain Commission, Statistics Canada

TRADE BETWEEN CANADA AND MEXICO

Canada's agri-food exports to Mexico have increased dramatically since the implementation of the NAFTA. Since 1993, the last year before NAFTA came into force, Canadian agri-food exports to Mexico increased significantly. Similarly, Mexican farmers have benefited from improved trade with Canada, as our imports from Mexico have grown significantly from 1993 to 2003. Over that period, the value of Canada's agricultural trade surplus with Mexico has also increased. Canada's most important agri-food exports to Mexico are canola seed, beef and wheat. Significant imports from Mexico include vegetables, fruit, coffee and beer.

By January 1, 2003, Mexico had eliminated tariffs on virtually all agri-food products, as scheduled under the NAFTA. With this stage of tariff elimination, most Canadian agri-food products now have duty-free access to the Mexican market. Exemptions are poultry, eggs, dairy and sugar, which were excluded from any preferential treatment under NAFTA, and maize (white corn) and beans, which will be subject to tariff rate quotas (TRQs) in the Mexican market until January 1, 2008. Among the Canadian products with export potential that were previously subject to tariffs or TRQs and as of January 1, 2003, now have duty-free access in the Mexican market are pork, potatoes, apples, barley,

wheat, all vegetable oils and confectionery products.

AGRICULTURAL POLICY DEVELOPMENT

The *Programa de apoyo directo al campo* (PROCAMPO) was introduced in Mexico in October 1993 to facilitate the transition to more market-oriented policies from the previous system of guaranteed prices. Since 1993 it has provided direct cash payments at planting time on a per hectare basis to growers of several crops. These payments will remain constant in real terms until the fall/winter 2007-2008 planting cycle. However, with the initiation of a new system of credit guarantees, farmers will be able to obtain all future PROCAMPO payments in one amount, through credit guarantees. The objective of this new system is to provide capital to farmers so that they can diversify or establish more market-based agribusiness ventures. ASERCA (Support Services for Agricultural Marketing Agency) provides per tonne deficiency payments for wheat, maize, sorghum, rice and some other crops.

Under the ALIANZA program (Alliance for Agriculture) the government has provided incentives to its producers to diversify or establish more market-based agribusiness. This will help the agriculture sector deal with the full implementation of NAFTA, which, in its remaining two years, will see the complete removal of tariffs on all goods.

Over the last ten years, Mexico has actively sought to build on the success of the NAFTA, establishing a wide network of 11 free trade agreements, guaranteeing preferential access to 32 countries.

SITUATION AND OUTLOOK

Corn

In Mexico, two corn crops are grown, one seeded in the spring/summer which represents about 90-95% of total corn production and the remaining 5-10% is grown in fall/winter, with about 40% of the fall/winter crop irrigated. Yellow and white corn are the two main types of corn grown in Mexico. Cracked yellow corn, used primarily as an animal feed source, makes up the majority of US corn exports to Mexico. NAFTA considers cracked corn a distinct commodity from corn and it has been exported to Mexico duty-free since 2003. White corn is used to produce Mexican tortillas and other foods. Since 2000, US white corn exports to Mexico have declined, due to Mexican agricultural policy, which has encouraged domestic production of white corn by providing incentives to producers.

For 2005-2006, corn production is estimated at 20.0 million tonnes (Mt), 12% below 2004-2005, due to lower area harvested. Imports are sourced entirely from the US, largely due to the NAFTA, which includes a Canadian TRQ of 1,426 tonnes (t) with an over quota tariff of 36.3% for 2006. The US corn growing area's close proximity to the Mexican border has made it unlikely that Canada will fill its corn TRQ. Imports are forecast to rise by 13%, to 6.7 Mt, due to strong demand from the livestock and starch industry as well as lower expected production. Total corn consumption is estimated at 28.4 Mt, up marginally due to an expected increase in feed demand. The feed industry, specifically the poultry and hog sectors, are the two largest consumers of Mexican feed corn. Mexican corn carry-out stocks are estimated at 3.3 Mt, 34% lower than last year and with a low stocks-to-use ratio of 8% for 2005-2006.

For 2006-2007, production is forecast to increase by 7% to 21.3 Mt due to higher area seeded, assuming normal growing conditions. Imports are expected to rise by 13% to a record 7.6 Mt, supported by the growing livestock industry and continued demand for corn as a food source in tortillas. In 2007, the Canadian TRQ for corn imports increases to 1,469 t with an over quota tariff of 18.2%.

Wheat

For 2005-2006, wheat production increased to 3.0 Mt, 29% above 2004-2005 due to an increase in harvested area and improved yields related to good weather conditions. In addition, heavy rainfall late last year and in early 2005 allowed for water reservoirs to reach sufficient levels for irrigation. Imports are forecast to be relatively unchanged at about 3.6 Mt, mostly from the US. Mexican wheat imports from the US are largely Hard Red Winter (HRW) wheat due to the close proximity of the large HRW wheat growing areas in the southern US plains to the Mexican border.

For 2005-2006, Canadian Western Red Spring wheat exports to Mexico are forecast at 0.6 Mt and are blended with lower quality wheat in order to improve Mexican flour quality. Imported wheat is also milled to make bread, cookies, cakes and prepared flours.

For 2006-2007, area seeded is forecast to rise marginally and, assuming average yields, production and imports are forecast to increase slightly.

Durum

For 2005-2006, durum production is estimated at 1.1 Mt, unchanged from last year. Mexico has been a net durum exporter since 1999-2000, largely due to its high internal transport costs, closeness to ports and consistently high crop quality. High quality durum is exported to North Africa and the EU, while poor quality durum is used as a feed ingredient in

MEXICO: WHEAT SUPPLY AND DISPOSITION

crop year *July-June*	**2003 -2004**	**2004 -2005**	**2005 -2006e**	**2006 -2007f**
Harvested Area (kha)	600	510	550	567
	……million tonnes……			
Production	2.7	2.3	3.0	3.1
Imports	3.6	3.7	3.6	3.7
Total Supply	**7.1**	**6.8**	**6.9**	**7.1**
Feed Use	0.1	0.1	0.1	0.2
Other Use	5.7	5.9	6.0	6.2
Exports	0.5	0.5	0.5	0.4
Total Use	**6.3**	**6.5**	**6.6**	**6.8**
Carry-out Stocks	0.8	0.3	0.3	0.3

MEXICO: CORN SUPPLY AND DISPOSITION

crop year *October-September*	**2003 -2004**	**2004 -2005**	**2005 -2006e**	**2006 -2007f**
Harvested Area (kha)	7,690	7,755	7,200	7,300
	……million tonnes……			
Production	21.8	22.6	20.0	21.3
Imports	5.7	5.9	6.7	7.6
Total Supply	**30.8**	**32.9**	**31.7**	**32.2**
Feed Use	11.2	12.6	12.9	13.2
Other Use	15.2	15.3	15.5	15.5
Total Use	**26.4**	**27.9**	**28.4**	**28.7**
Carry-out Stocks	4.4	5.0	3.3	3.5

e: estimate; f: forecast, AAFC, March 2006
Source: USDA

hog rations. Exports are expected to remain unchanged at 0.4 Mt, while imports, mostly from Canada, are expected to fall from 2004-2005, to 0.1 Mt. Imports of durum from Canada are forecast at 50,000 t, down from 155,000 t in 2004-2005 when the majority of the imports were lower quality durum.

For 2006-2007, exports of durum wheat by Mexico, and imports from Canada, are forecast to remain unchanged from 2005-2006.

Barley

Mexico is the eighth largest beer producer in the world and in 2002 domestic beer production reached 6.3 billion litres (L). In the last 25 years, beer consumption has increased substantially. Currently, consumption of beer in Mexico is about 60 L per capita, compared to 63 L in Canada and 87 L in the US.

For 2005-2006, while barley production, consisting mainly of six-row varieties, is forecast to remain unchanged at 0.9 Mt, consumption is expected to continue to increase marginally to 0.95 Mt due to increased beer production in Mexico. As a result, Mexican malting barley imports are estimated to be unchanged at 75,000 t. Canadian exports of malting barley to Mexico are forecast to remain similar to last year at 5,000 t in 2005-2006. However, Canadian exports of malt have risen since the TRQ was eliminated in 2003 and are estimated at 50,000 t in 2005-2006. The remainder of Mexico's imports of malt and malting barley are sourced from the US.

For 2006-2007, barley production is forecast to remain similar to 2005-2006 due to unchanged seeded area and yields. Canadian malt and malting barley exports to Mexico are expected to remain similar to 2005-2006.

Oilseeds

The crushing industry in Mexico is a major importer of oilseeds to offset the deficit between its vegetable oil consumption and its domestic production. As population and income continue to grow in Mexico, demand for oilseeds is expected to continue to expand. Although the Mexican market utilizes many different types of oilseeds including peanuts, sunflower seed, cotton seed and canola, it continues to be dominated by soybeans.

Soybeans

Soybeans represent about 70% of Mexico's total annual oilseed imports. For 2005-2006, soybean production is estimated at 130,000 t, unchanged from last year. Soybean consumption is estimated at 3.8 Mt, up slightly from 2004-2005, largely due to strong feed demand from the hog and poultry sectors. As a result of this increase in demand for soybeans, the Mexican crushing industry is expected to expand as smaller, inefficient crushers are replaced by larger crushers. Although most of Mexico's soybean imports are from the US and Brazil, Canada is expected to export 10,000 t, up from 7,000 t in 2004-2005, for 2005-2006 and 2006-2007.

Canola

Due to canola's high oil content, compared to soybeans, it has been an attractive import for Mexico. For 2005-2006, imports of canola are forecast at 1.2 Mt, nearly all of which is from Canada. Mexican crushers have markets for canola oil and will import canola when it is price competitive and when they are able to market the canola meal. The EU was a competitor with Canada in Mexico, but with recent expansion in bio-diesel production in the EU, Mexican imports from the EU have been minimal. Mexico is Canada's second largest canola export market after Japan.

For 2006-2007, Mexican canola imports are forecast to rise marginally due to the higher vegetable oil consumption. Due to ample supplies, Canada will maintain its dominance in that market.

Flax

Mexico does not produce flaxseed. Over the last five years, the demand for Canadian flaxseed in Mexico has been increasing, with Canada supplying the majority of flaxseed to Mexico. Consumers have become more aware of the nutritional content and health benefits of flaxseed. The baking industry is also using flaxseed as an ingredient in multigrain breads and biscuits. Poultry producers are beginning to use flaxseed to produce omega-3 eggs and help maintain the health of their animals. For 2005-2006, imports of flaxseed from Canada are estimated at 2,000 t, up marginally from last year and are expected to continue to increase in 2006-2007.

Pulse and Special Crops

Canada is the major source of canary seed, mustard seed, lentils and sunflower seed. There is duty free access for all Canadian pulses and special crops except for dry beans, the TRQ for which is increased by 3% each year. Dry bean imports made under this TRQ are duty free, however, the over quota duty is 58.7%. Under NAFTA, Canada has a TRQ of 2,139 t and an over quota tariff of 23.5% for dry beans in 2006. Canadian dry bean exports are expected to trend upwards with elimination of the TRQ on January 1, 2008. Dry beans, imported for seed, already have a zero tariff rate.

Mexico's total **canary seed** imports have been stable with about 50,000 t imported annually since 2003-2004. Mexico is currently the largest export destination for Canadian canary seed. The remainder of canary seed imports are Canadian canary seed re-exported from the US to Mexico. Canada's direct share of the market has steadily increased to 40,000 t in 2004-2005 and 41,000 t is forecast for 2005-2006.

For **lentils**, total imports have been relatively stable around the 2003-2004 level of 30,000 t. With lentil consumption increasing and domestic production remaining relatively small at an average of about 7,000 t annually, most of Mexico's domestic demand is filled by imports. Canada's share of imports have been stable and reached 23,000 t in 2004-2005 and are expected to increase to 30,000 t in 2005-2006 as it continues to be the main supplier to Mexico.

For **dry beans**, total imports have been variable depending on domestic production, with demand mainly consisting for coloured beans, especially pinto and black beans. Mexican dry bean production varies between 1.4 and 1.6 Mt or about 95% of its domestic demand. Per capita bean consumption continues to be one of the highest in the world at about 14.0 kilograms (kg). The remaining 5% is imported largely from the US, with small amounts from Canada. In 2004-2005, imports were low at about 52,000 t and Canada's share fell to 300 t. Canada's exports to Mexico in 2005-2006 are expected to recover to 2,000 t, near the 5-year average.

For **dry peas**, production is about 4,000 t. Total dry pea imports have been stable with Canada's share reaching 5,200 t in 2004-2005 or about 35% of the import market. Canada's exports to Mexico are expected to increase to 10,000 t for 2005-2006.

For **sunflower seed**, total imports have decreased in recent years. Mexico imports mainly confectionary sunflower seed from Canada. In 1998-1999, the US replaced Argentina and Uruguay as the main supplier of sunflower seeds to Mexico. Canada's exports to Mexico have been stable, reaching 900 t in 2004-2005, and are expected to increase to 1,100 t for 2005-2006.

For 2006-2007, total Canadian exports of pulse and special crops are forecast to increase due to growing demand and Canada is expected to continue its role as a major supplier.

Livestock

Pork

Mexican hog inventories have been relatively stable in recent years. However, the shift to more technically advanced producers has continued to reduce the cost of production, leading to better profitability. Consumer demand for processed pork is growing faster than for fresh and frozen pork cuts. However, pork cuts remain the largest portion of Mexican pork consumption. It is important to note that domestic pork prices are about 20% less than beef, but pork is roughly twice the price of chicken. Given the relatively low per capita consumption of pork in Mexico compared to Canada, the potential for growth in this sector is high. Strong pork prices in the last two years have helped encourage investment and consolidation in the pork sector.

For 2005, Mexican pork production was estimated to have increased marginally to about 1.0 Mt from 2004. Hog numbers estimated for 2005 remained similar to 2004 at about 15.5 million head (Mhd). Per capita consumption is about 15.4 kg and is expected to increase over the medium-term. Annual slaughter is about 14.5 Mhd, and continue to increase, largely due to Mexico's growing supermarket and meat processing sectors.

Canadian pork exports were about 68,800 t in 2004 and are estimated to have decreased to 63,100 t in 2005. Canadian hog exports are estimated to have risen substantially to about 11,800 head in 2005.

For 2006, demand for pork will be driven by the increasing purchasing power of the Mexican consumer. Pork imports from Canada are expected to increase due to Canada's ability to provide a highly consistent and quality product.

Beef

Beef production and the size of the Mexican cattle herd have remained stable throughout the 2000s, as consumption has remained at about 16 kg per capita. Beef's higher costs limit consumption to middle and higher income consumers.

Mexico closed its border to Canadian beef on May 20, 2003, due to the Bovine Spongiform Encephalopathy (BSE) case detected in Alberta. In August 2003, Mexico announced the re-opening of the border to certain boneless beef products from animals under 30 months of age. However, exports did not resume until October 2003 when the Canadian Food Inspection Agency (CFIA) and the Mexican authorities (SENASICA) reached an agreement on the certification conditions for exports of these products to Mexico. Since then, the CFIA and SENASICA have been working together to expand the list of Canadian beef products eligible to be exported to the Mexican market. Canadian bone-in beef, under 30 months of age, has recently been allowed access to Mexico.

Bone-in beef, ground beef, mechanically separated beef, advanced recovery meat and beef from animals over 30 months of age are still not allowed into Mexico because of BSE concerns. However, it is important to note that after the border was re-opened, Canada achieved a record level of boneless beef exports to Mexico in 2003-2004.

Live cattle from Canada are not imported because of the geographical distance, the availability of cattle from other sources and the BSE ban.

For 2005, it is estimated that Mexican beef cattle inventories increased marginally from 2004 to about 11.7 Mhd, while 2005 domestic beef production is estimated to be relatively unchanged at about 1.6 Mt. Exports of Canadian beef are estimated to be lower than 2004 at about 45,900 t. The high 2004 Canadian beef export levels to Mexico were the results of Canada being the only exporter inn Mexican market for the first part of the year.

For 2006, Mexican beef consumption is forecast to remain unchanged as consumers continue to support the demand for high quality and frozen food from the Mexican supermarket, tourism and restaurant sector.

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. Canada is expected to be well positioned to continue to service the Mexican import market for wheat, malt, canola, beef, pork, pulse and special crops.

For more information, please contact:

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

Electronic version available at www.agr.gc.ca/mad-dam/

ISSN 1207-621X
AAFC No. 2081/E

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

Director: Maggie Liu
Chief: Fred Oleson

To receive a free e-mail subscription to Bi-weekly Bulletin, please send your request to bulletin@agr.gc.ca.

Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

While the Market Analysis Division assumes responsibility for all information contained in this bulletin, we wish to gratefully acknowledge input from the following:
Canadian Embassy in Mexico, Canadian Wheat Board, Market and Industry Services Branch (AAFC)