



International Agricultural Trade Report

Weekly Market Report: Dairy, Livestock, & Poultry

July 21, 2000

U.S. Pork Exports To Mexico Increase

Summary

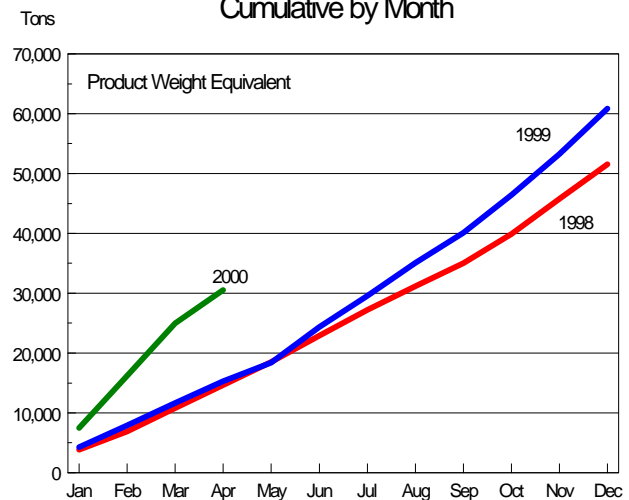
Mexico is an important trading partner for the U.S. pork industry as it represents about 15 percent of the U.S. pork exports to the world with a value of over \$110 million. As the Mexican economy improves and demand for pork rises, U.S. pork exports are forecast to remain strong. Despite the presence of a tariff rate quota that assesses a duty of 6 percent on in-quota shipments and 20 percent on above-quota shipments, pork exports continue to trend higher. The United States has nearly tripled pork exports to Mexico from 20,963 tons in 1995 to 60,849 tons in 1999. U.S. pork exports are about 80 percent fresh or chilled and 7 percent cured hams and shoulders. While U.S. pork dominates Mexico's pork import market, Canadian pork is increasingly competitive.

Stronger Mexican Economy Supports U.S. Pork Exports

U.S. pork exports to Mexico in 2000 are rising at a rapid rate. U.S. trade data for the first 4 months of 2000 show pork exports climbing to over 30,000 tons (product weight equivalent), up 100 percent from a year ago. Total 1999 U.S. pork exports to Mexico were a record 60,849 tons.

The Mexican economy continues to strengthen due to a rebound in world oil prices, the government's conservative fiscal policy, and stability in Asia and Brazil. The improving consumer purchasing power is creating demand for pork and pork products. Many pork importers and companies favor U.S. pork due to consistent quality, food safety (wholesomeness) controls of U.S. pork, and competitive prices. For the Mexican pork sector, a lack of adequate infrastructure, distribution systems, and cold storage capacity have impeded the domestic market from fully satisfying demand. In addition, hog production has grown slowly due to consolidation within the sector and higher input costs. During 1999, most producers reported that net returns were negative as higher hog prices did not offset feed costs (both imported and domestic soymeal, sorghum, and corn). As the population increases and middle class grows, pork consumption increases.

US Pork Exports to Mexico
Cumulative by Month



Before the ratification of NAFTA, select pork products were subject to a 20-percent tariff. NAFTA implemented a special tariff rate quota (TRQ) for pork that increased the quota 3 percent

a year and had a sliding tariff that would be phased out by 2003. The 1999 in-quota tariff was set at 8 percent and above-quota at 20 percent. During the first quarter of 2000, select pork products were assessed the 6 percent NAFTA tariff, but quota limits for the various pork categories were surpassed in April and May. Pork products are now assessed the 20 percent tariff until December 31, 2000. As shown by the chart, U.S. pork exports to Mexico accelerated each year as the TRQ limits increased. Even when the 20 percent above-quota duty was applied last year, the pace of U.S. exports continued to accelerate.

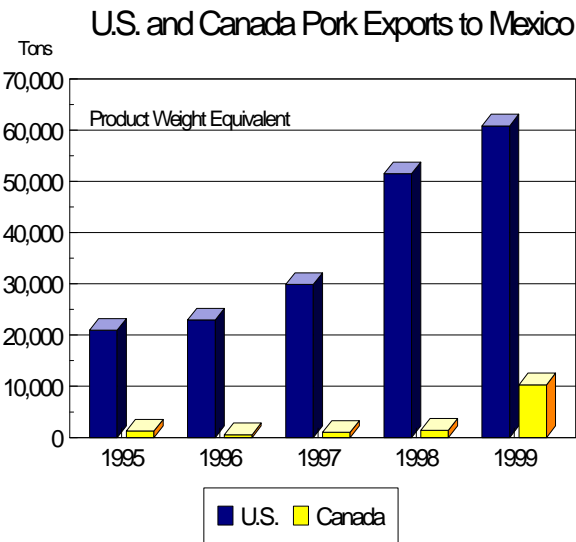
Value of Pork Exports Up Nearly 50 Percent From Last Year

The value of U.S. pork exports to Mexico in 1999 climbed to \$110.7 million, up \$11.6 million from the previous year. For the first 4 months of 2000, the U.S. pork export value reached \$57.3 million, up nearly \$30.3 million from the same time period in 1999. Fresh/chilled pork comprise about 80 percent of the pork sold to Mexico, with roughly 8 percent frozen, 7 percent hams and shoulders, and 5 percent bacon. Sausage and cold meat processors account for 80 percent of total pork imports from the United States, while the remaining 20 percent is imported by/for supermarket chain stores.

Canada Starts to Compete in Mexican Market

With the tremendous growth rate for the first 4 months of 2000, U.S. pork exports are expected to remain strong despite Canada’s recent entry into Mexico’s pork market. Canada has increased pork exports from about 1,400 tons in 1998 to over 10,300 tons in 1999. Like the United States, NAFTA TRQ’s are applied to Canadian pork exports. On June 15, Mexico announced that the quantity of select pork products imported from Canada had exceeded the TRQ and the 20 percent tariff would be in effect until December 31, 2000.

With the Canadian hog industry expanding, Canada is looking to export more pork. Canada has discovered Mexico as a pork trading partner and U.S. pork exporters now face increasing competition in Mexico. Even though the United States increased pork exports to Mexico by nearly 20 percent from 1998 to 1999, Canada increased exports by a factor of seven and expanded its market share. The 9,300 ton gain year-to-year by the United States was limited by an increase of 8,900 tons of Canadian pork exports to Mexico.



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