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Briefing Report to the Chairman, Committee on Agriculture, House of Representatives

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U.S.-MEXICO TRADE

Trends and Impediments in Agricultural Trade

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The Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

In response to your request of July 11, 1989, we have undertaken a review of agricultural trade between the United States and Mexico. Specifically, you expressed interest in U.S.-Mexican agricultural trade flows in recent years, the impediments to further expanding this trade, and the potential for increasing it. This briefing report, as requested, contains information on the value of U.S.-Mexican agricultural trade from 1982 to 1988, economic trends affecting this trade, and principal obstacles to agricultural trade between the two countries.

For this briefing report we relied on information provided by U.S. government officials, representatives of the Mexican Embassy and international organizations in Washington, D.C., academicians, and spokespersons for U.S. and Mexican agricultural industry groups. We plan to issue a comprehensive report at a later date which will more fully explore these issues, taking into account information to be obtained from Mexican agricultural and commercial authorities, representatives of U.S. and Mexican agricultural producers and other experts in U.S.-Mexican agricultural trade.

Background

The discovery of vast petroleum reserves in Mexico in 1977 allowed the Mexican government to pursue a debt-led strategy for economic development. Counting on revenues from its oil exports, Mexico borrowed heavily from foreign sources to finance industrial development. In 1982, however, oil prices declined leading to a shortfall in expected revenues, and financial institutions cut loans to Mexico. Mexico was saddled with a huge external debt without the expected means to service it. From 1983 through 1988 Mexico experienced an average annual decline of 2.5 percent in real per capita income and the economic problems continue.

In spite of serious economic problems in Mexico, agricultural trade[1] with the United States has expanded in recent years, in the context of

[1]Combined value of U.S. exports to Mexico and Mexican exports to the United States.

improved overall trade relations between the two countries. Mexico's accession to the General Agreement on Tariffs and Trade (GATT) was an important development in this area. Since joining GATT, Mexico has significantly reduced import licensing requirements, its principal protectionist mechanism. In addition, Mexico has consolidated tariff categories, reduced the dispersion of tariff levels, and reduced overall tariff rates.

Results in Brief

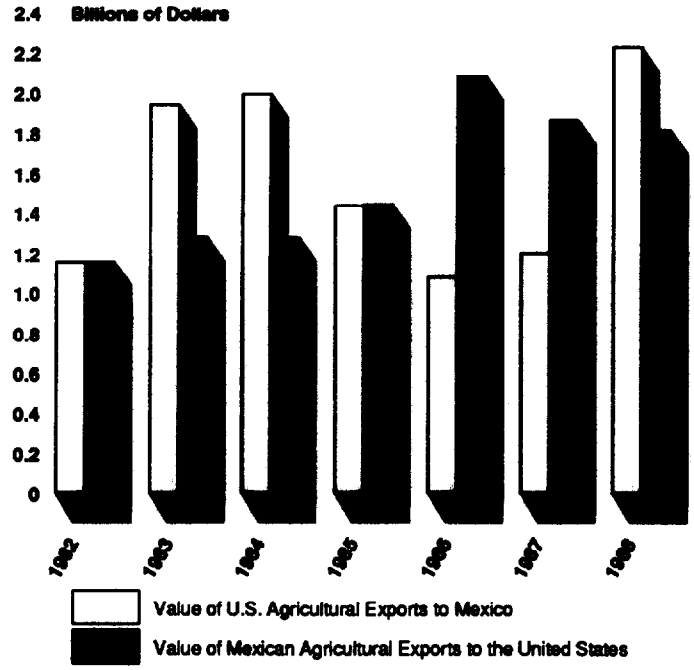
U.S.-Mexican agricultural trade increased from $2.3 billion during the recession year of 1982 to $4 billion in 1988. While agricultural trade has recovered since the 1982 crisis, a number of problems continue to impede expansion. Both governments still maintain some policies which impede trade, including strict health regulations, import licensing requirements and tariffs. U.S. and Mexican border processing procedures and inadequate infrastructure in Mexico also constrain trade. In addition, Mexico's large external debt limits demand for all U.S. exports, including U.S. agricultural exports, and Mexico's ability to promote agricultural development.

In August 1989 the U.S. Department of Agriculture and its Mexican counterpart established binational technical groups to promote a closer working relationship and facilitate commerce between the U.S. and Mexico. The technical groups are addressing areas such as administrative procedures, marketing and inspections. In October 1989, the presidents of Mexico and the United States formally declared their support for the efforts of these groups.

Agricultural Trade Trends

Mexican agricultural trade with the United States nearly doubled from 1982 to 1988. While the value of U.S. agricultural trade worldwide grew at an average rate of only 2.3 percent between 1982 and 1988, U.S.-Mexican agricultural trade increased at an average annual rate of 11.6 percent. However, U.S. and Mexican agricultural exports had different patterns. Mexican agricultural exports to the United States had a steady growth trend, except for a surge in 1986 which was mainly due to higher coffee prices. Mexico's efforts to increase revenues from non-petroleum exports since 1982 and the devaluation of the Mexican peso have been important factors in the expansion of agricultural exports. U.S. agricultural exports to Mexico had wide fluctuations, mainly reflecting Mexican harvest conditions, adverse Mexican economic conditions, and the availability of U.S. export credit guarantees.

Figure I: Value of U.S.-Mexican Agricultural Trade (1982-1988)



Source: U.S. Department of Agriculture data.

Agriculture's share of total Mexican exports has increased from an average of 7 percent from 1982 through 1985 to more than 12 percent from 1986 through 1988. In 1988, Mexico ranked third among major suppliers of agricultural products to the U.S. market. However, the United States enjoyed an agricultural trade surplus of about $414 million with Mexico in 1988, and Mexico was the fourth largest single country market for U.S. agricultural exports.

The nature of U.S.-Mexican agricultural trade has been complementary. The United States exports bulk commodities to Mexico, such as corn and soybeans, and Mexico supplies the United States tropical products and specialty crops, such as coffee and tomatoes.

Trade Policies and Practices Impede U.S.-Mexican Agricultural Trade

A number of problems hinder expansion of U.S.-Mexican agricultural trade. Apart from the economic and harvest conditions, the principal impediments are related to government policies. Mexican growers complain that their agricultural exports are subject to excessive U.S. plant and animal health regulations and that U.S. tariffs on certain export crops are too high. Conversely, U.S. sources say that Mexico's continued

reliance on import licensing requirements is inconsistent with certain provisions of GATT.

Other conditions also constrain agricultural trade, such as limited participation by Mexican horticultural producers in marketing and distributing their crops and lack of knowledge by U.S. producers of the Mexican marketing and distribution system. As the volume of bilateral trade has increased, transportation and other infrastructure constraints at the border and in Mexico have surfaced as obstacles to trade expansion. In addition, the crushing weight of external debt on the Mexican economy limits demand for U.S. agricultural exports and funding for development of Mexican agriculture.

Less serious problems concern administrative processing procedures at the border. Allegedly, U.S. inspections and processing requirements were not applied consistently at all ports of entry. There were also alleged irregularities and inconsistencies regarding processing procedures and requirements on the Mexican side of the border. However, recently there has been progress in speeding up the inspection process.

Joint Initiatives Support Agricultural Trade Improvements

In 1987 the United States and Mexico signed the Bilateral Framework Agreement on Trade and Investment to improve, and make more routine, consultations on trade and investment issues. Building upon the success of the Bilateral Framework Agreement, in October 1989 the two countries concluded an understanding to expand bilateral trade and investment relations. Among other things, this understanding lends support to the efforts of five binational technical groups established in August 1989 by the U.S. Department of Agriculture and Mexico's Secretariat of Agriculture and Water Resources to cooperate in

- technical and administrative assistance programs;
- marketing;
- inspection and research systems;
- data collection procedures to facilitate economic analysis; and
- harmonization of research programs and needs.

The U.S. Department of Agriculture and the Mexican Secretariat have worked together on numerous programs to eradicate agricultural pests, promote research into the development and exploitation of new crops, encourage conservation and more efficient use of natural resources, and improve productivity of conventional crops and livestock. Currently, the

two governments are cooperating on research into crops such as guayule and jojoba which could be made into useful new products.

Details on the results of our study of major impediments to U.S.-Mexico agricultural trade are in appendix I and the economic and market trends affecting bilateral agricultural trade are discussed more fully in appendix II. Our objectives, scope, and methodology are in appendix III. As requested by your office, we did not obtain agency comments on this briefing report. However, the information presented was discussed with appropriate officials of Agriculture and Customs and their views were considered in completing the report.

Unless you publicly announce its contents earlier, no further distribution of this report will be made until 30 days from its issue date. At that time, we will provide copies to other interested parties.

The principal GAO staff members contributing to this study are identified in appendix IV. If you have any questions please call me on (202) 275-4812.

Sincerely yours,

Allan I. Mendelowitz
Director, Trade, Energy, and
Finance Issues

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Abbreviations

APHIS	Animal and Plant Health Inspection Service
CNPH	National Confederation of Horticultural Producers
ERS	Economic Research Service
FAS	Foreign Agricultural Service
FDA	Food and Drug Administration
GATT	General Agreement on Tariffs and Trade
GSM	General Sales Manager
GSP	Generalized System of Preferences
ICO	International Coffee Organization
USDA	U.S. Department of Agriculture

Major Impediments to Agricultural Trade

Both Mexico and the United States have tariffs and other barriers to trade between the two countries. Inadequate infrastructure and outdated transport conditions in Mexico and along the border also delay and complicate the flow of trade. The administrative import procedures of each country are reportedly cumbersome. Recently, however, there has been progress in this area with bilateral consultations and programs, such as "Line Release," to speed up the importation process into the United States. Mexico's large external debt is a major constraint to its ability to import all products, including U.S. agricultural products. Lack of knowledge of and access to marketing and distribution systems further inhibit trade flows between Mexico and the United States.

Tariffs

Although Mexico has reduced many of its tariffs in recent years, relatively high tariffs on some imported agricultural commodities make those products virtually uncompetitive in the Mexican market. Similarly, although some Mexican agricultural products enter the United States duty free under the Generalized System of Preferences (GSP), many of Mexico's important agricultural exports are subject to import tariffs, especially during the harvest seasons in the United States.

Mexican Tariffs on U.S. Agricultural Products

In recent years, Mexico has reduced its overall tariff rates and rationalized its tariff regime by consolidating the number of tariff levels imposed on imports. Differences between tariff levels were also reduced. These efforts were initiated in conjunction with Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in 1986. The average tariff rate dropped from about 30 percent in 1985 to less than 10 percent in 1988. In December 1988, Mexico went beyond its obligations under GATT, which set overall tariff ceilings at 50 percent, and unilaterally reduced the maximum applied tariff to 20 percent.

Participation in GATT has also entailed a reduction in the number of products subject to import licensing; however, the importance of tariffs as a trade policy tool has increased. Mexican duty levels are set after consideration of such factors as the degree of processing and internal demand. Tariffs on bulk commodities are low, while the highest duties apply to processed foods and specialty crops such as temperate climate fruits, nuts, and alcoholic beverages. While the 20 percent tariff may appear relatively low, it eliminates the competitiveness of certain U.S. products, such as beer. Since the beginning of 1989, Mexico has also raised the tariff rate on some products from zero or 5 percent to 10 percent.

U.S. Tariffs on Mexican Agricultural Products

Some Mexican agricultural exports, such as bananas, enjoy U.S. duty free status. However, under the Tariff Schedules of the United States, most fruits and vegetables are subject to duties based on a cents-per-kilogram charge; in 1988, the ad valorem equivalent tariffs on the principal Mexican horticultural exports ranged from 0.5 to 37.6 percent of product value. (See table I.1.)

U.S. tariffs on some Mexican fruits and vegetables are applied on a seasonal basis to coincide with the marketing period for domestic U.S. production. For example, tomatoes, which accounted for more than 20 percent of the total value of Mexican fresh produce exports in 1988, were subject to a reduced 6.9 percent ad valorem equivalent tariff rate from November 15 through February, the off season for U.S. domestic production. During periods of increased domestic production, tariff rates for tomatoes ranged from 8.5 to 11.5 percent. In the past, Mexico has argued that U.S. duties on tomatoes and melons are unreasonably high.

Generalized System of Preferences

The Generalized System of Preferences (GSP) program, established under Title V of the Trade Act of 1974, grants temporary, nonreciprocal duty elimination on designated products of certain developing countries. In 1988, Mexico ranked third among major beneficiaries of the GSP program. In the past three years, imports from Mexico under this program have increased at an average annual rate of 12.9 percent. Mexico has been the leading source for fruits, vegetables, and beverages imported into the United States under the GSP. In 1988, the leading Mexican exports eligible under the GSP program included beverages and spirits ($50.3 million), sugar and sugar confectionery products ($50.8 million), vegetables ($18.8 million), and fruits ($9.4 million).

Table I.1: Ad Valorem Equivalent Tariff Rates for Top U.S. Horticultural Imports From Mexico-Fiscal Year 1988

Product and tariff code	Time of tariff	Tariff (cents/kg)	Import Value (Dollars in thousands)	Volume (metric tons)	Percent ad valorem equivalent
Tomatoes					
1376000	3/1-7/14; 9/1-11/4	4.6	$74,114	184,553	11.45
1376200	7/15-8/31	3.3	14,841	38,221	8.50
1376300	11/15-2/last	3.3	69,296	145,504	6.93
Onions					
1369300	all year	3.9	69,625	162,888	9.12
Peppers, Chili					
1371010	all year	5.5	20,548	35,590	.53
Peppers, Bell					
1371020	all year	5.5	32,169	82,377	14.08
Cucumbers					
1359000	12/1-2/last	4.9	29,508	136,694	22.70
1359500	3/1-4/30	6.6	7,053	40,175	37.59
1359700	5/1-6/30; 9/1-11/30	6.6	7,748	25,825	22.00
1359900	7/1-8/31	3.3	464	1,325	9.42
Squash					
137500	all year	2.4	31,103	59,299	4.58
Strawberries					
1465800	6/15-9/15	.4	538	1,189	0.88
1466000	other times	1.7	13,629	14,600	1.82
Lettuce					
1366000	6/1-10/31	.88	39	78	1.76
1366100	other times	4.4	10,628	15,659	6.48
Beans, Green					
1351600	all year	7.7	9,132	11,169	9.42
Eggplant					
1362000	4/1-11/30	3.3	2,844	4,842	5.62
1362100	other times	2.4	6,293	13,179	5.03
Garlic					
1363000	all year	1.7	6,931	12,337	3.03

Source: U.S. Department of Agriculture, Foreign Agricultural Service, Horticultural and Tropical Products Division.

Non-Tariff Barriers

In many instances, non-tariff barriers rather than tariffs limit the trade of agricultural goods between Mexico and the United States. Mexico's import licensing requirements restrict many U.S. agricultural exports,

while U.S. controls such as marketing orders and quotas limit Mexican agricultural exports.

Mexico's Import Licensing Requirements

The Mexican government sets quotas for almost all major imported agricultural commodities. These quotas are set by estimating the size of the domestic harvest and the amount of imports necessary to bridge the gap between domestic production and demand. Import licenses are the mechanism used to enforce these quotas.

Import licensing requirements are the most significant non-tariff barrier to U.S. agricultural exports to Mexico. To meet its commitments under GATT, Mexico has undertaken measures to liberalize its trade practices, including reducing the number of items subject to import licensing. In 1983, all Mexican tariff categories were subject to import licensing requirements; by 1988, only about 4 percent of these categories still required import permits. Nevertheless, 60 agricultural product categories, including grains, oilseeds, dairy goods, and certain horticultural products with good market potential for U.S. exporters, still require import permits.

The Mexican government's objective in requiring import licenses is to encourage domestic industry to buy local products. During the harvest season for domestic crops the government effectively closes the border to foreign suppliers. In some cases the availability of permits for specific importers is based on the amount of domestic crop purchased.

Mexico's import licensing requirements affect various U.S. agricultural exports in different ways. According to the Foreign Agricultural Service, import licenses represent a greater impediment to the expansion of U.S. apple and pear exports to the Mexican market than tariffs, which are set at the maximum rate of 20 percent. For U.S. grain, the major problems associated with licensing requirements are that imports must occur within narrow time frames between Mexican production seasons. For example, sorghum, a major U.S. export, can generally be imported from March through mid-May and during August and September. Given increasingly congested railway access for bulk commodities going to Mexico, these requirements place an added logistical burden on U.S. grain exporters. The U.S. Department of Agriculture (USDA) recommends that U.S. exporters pay close attention to the expiration date on their Mexican import permits, since there is generally little or no flexibility on extensions.

U.S. Marketing Orders

According to a spokesman for Mexican horticultural producers, U.S. marketing orders have posed a significant impediment to Mexican exports of fruits and vegetables to the United States. Marketing orders are agreements among domestic producers of a given commodity to provide collective solutions for marketing and distribution problems, such as quality control, promotion, and sharp fluctuations in supply. The Agricultural Marketing Agreement Act of 1937, Section 608e-1 (7 U.S.C. 608e-1), provides that whenever a marketing order specifies grade, size, quality, or maturity for specified domestic commodities, imports must meet the same or comparable requirements. Currently, Section 608e-1 specifies 18 fruits and vegetables and marketing orders are in effect for all but 4 of these commodities (see table I.2). Mexico is the major supplier of several commodities listed under Section 608e-1, including tomatoes, onions, and mangoes.

Table I.2: Section 608e-1 Commodities and Proposed Additions

Commodities subject to a marketing order	Commodities not subject to a marketing order	Proposed additions
Avocadoes	Cucumbers[a]	Kiwifruit
Dates	Eggplants	Nectarines
Filberts	Green Peppers	Papayas
Grapefruit	Mangoes	Peaches
Irish Potatoes		Pears
Limes		Plums
Olives		
Onions		
Oranges		
Prunes		
Raisins		
Table Grapes		
Tomatoes		
Walnuts		

[a]Currently there is a proposal to establish a marketing order for greenhouse cucumbers.

Mexican producers have usually been able to meet the standards imposed by U.S. marketing orders for Section 608e-1 commodities. Nevertheless, a spokesman for Mexican horticultural producers explained that Mexican exports have been hurt when the commodities involved have come under new marketing orders or when domestic producers have changed the requirements for existing marketing orders. On such occasions, Mexican exports have suffered heavy losses as production adjustments were made to meet changing requirements. Future Mexican horticultural products exports could face additional problems as U.S.

legislation is pending to expand the number of items under Section 608e-1.

U.S. Quotas

U.S. imports of Mexican beef are subject to the Meat Import Act of 1979, which establishes an annual global level of imports for these products, and calls for quotas if imports exceed this level. However, Mexican beef exports to the United States generally fall short of the level where a quota would be imposed. This is primarily due to Mexican internal policy considerations. The Mexican government has imposed quotas or duties on beef and cattle exports to restrict exports and maintain an adequate supply of meat at low prices for domestic consumption.

Although current Mexican sugar and sugar product exports to the United States are relatively modest, they could potentially be much higher. However, Mexican sugar exports are subject to a strict U.S. quota system. The present sugar quota program, established by Presidential Proclamation 4941 on May 5, 1982, is a country-by-country quota system set unilaterally by U.S. authorities. The existing country quotas are based on the amount of sugar exported to the United States by exporting countries between 1975 and 1981, a period characterized by "relatively free" trade in sugar, according to USDA officials. Each year the aggregate sugar quota is reviewed and revised to meet U.S. needs, even though the percentage allocated to individual countries remains the same. Under this system Mexico is entitled to the minimum quota allocation, or 0.3 percent of the total. In 1988, the U.S. sugar quota for Mexico was set at 8,000 metric tons, valued at approximately $1.4 million.

Sanitary Requirements

Mexico and the United States maintain and enforce various sanitary standards for agricultural imports. Generally, producers in each country are able to meet the other country's sanitary standards. However, in some cases the prevalence of specific plant diseases and pests in Mexican production areas has led to a U.S. prohibition against Mexican agricultural commodities. Mexican orchard crops have been particularly affected by these restrictions.

Mexican Sanitary Requirements

Mexico has strict sanitary requirements for agricultural imports. For example, animals imported from the United States must be accompanied by a health certificate issued by a veterinarian authorized by USDA and endorsed by a veterinarian from the Veterinary Services certifying that

the animals are free from certain diseases, such as tuberculosis, brucellosis, or cholera. These health certificates also must be validated by Mexican consular officials. A statement that the animals have been cleaned and disinfected must accompany the shipment.

Changes in Mexican sanitary requirements have seriously disrupted U.S. exports in the past. For example, in March 1989, Mexico required that U.S. swine be vaccinated for hog cholera 30 days before export. U.S. exporters refused to undertake this measure because the United States has been officially free from hog cholera since 1978 and vaccination could lead to renewed outbreaks of cholera among U.S. hogs.

A problem arose according to Mexican officials because some Mexican importers had diverted U.S. slaughter hogs for breeding purposes. U.S. hogs lack immunity to cholera and the officials alleged they were causing cholera outbreaks in Mexico's hog population. Mexico wanted to solve the problem by restricting imports to castrated male hogs. The U.S. position was that Mexican authorities should be responsible for ensuring that the imported slaughter hogs are not used for other purposes. Mexico will soon replace the prior vaccination requirement and U.S. hogs will be vaccinated in Mexico, after which they will be quarantined 2 weeks. The cost of such a quarantine will increase the price of the hogs, thus affecting their marketability in Mexico.

Processing procedures within Mexico's health bureaucracy have also hindered U.S. exports' access to the Mexican market. In the past, U.S. exporters of wine have had to wait up to a year for required health certificates before they could export their products to Mexico.

U.S. government officials have argued that Mexico often uses health and sanitary requirements, without scientifically justifiable bases, to restrict imports. For example, during the Mexican domestic soybean harvest, Mexican authorities temporarily closed the border to soybean meal imports, allegedly because there was a need to inspect for aflatoxin, mycotoxins, and pesticide residues in the shipments.

U.S. Sanitary Requirements

The United States maintains strict sanitary requirements on agricultural imports. Mexican producers are generally able to comply with these requirements, but some commodities are restricted or denied entry because they pose a threat to domestic crops or animal health. Concern

over the safety of certain Mexican agricultural products for human consumption has also presented serious obstacles for Mexican exports to the United States.

Plant Health Issues

According to USDA Animal and Plant Health Inspection Service (APHIS) officials, Mexican vegetable exports are not affected by significant plant health problems, but there are serious phytosanitary concerns regarding a number of Mexican orchard crops, particularly the prevalence of the Mediterranean and Mexican fruit flies throughout many production areas of Mexico. Consequently, most Mexican fruits exported to the United States must be treated to ensure they are free of fruit flies; for example, oranges, grapefruit, and tangerines must be treated with metholbromide gas. This treatment often blemishes the exterior of the fruit, significantly reducing their value.

Only fruits exported from the Mexican state of Sonora are exempt from this treatment, because Sonora has been declared free of fruit flies by APHIS authorities. This fact is also a great benefit to growers in California and Arizona, because, in effect Sonora serves as a buffer between the fruit producing areas of the United States and the fruit fly infested areas of Mexico. Recently, other Mexican states have sought APHIS cooperation to eradicate fruit flies.

Avocadoes are a major Mexican agricultural export, but they are completely banned from the United States due to seed weevil infestation. However, Mexican avocadoes are allowed to transit the United States enroute to third countries—Canada, Europe and Japan. These shipments must be sealed while transported through the United States, and the routes used must avoid U.S. avocado-producing areas, such as California. Mexican avocadoes exported to Japan through the United States must be shipped from Portland, Oregon, or Seattle, Washington, while those shipped to Europe go through the port of Houston, Texas.

Another important phytosanitary problem limiting Mexican orchard crops exports is the citrus canker. The Mexican small sour lemon is completely banned from the U.S. market. The larger Persian lime can be exported to the United States but must undergo a chlorine-based treatment. There is ongoing controversy regarding the restrictions on these Mexican citrus products. Mexican growers claim they have eradicated the citrus canker and the ban should be lifted.

Animal Health Issues

Mexican livestock and animal products also face strict U.S. sanitary controls, primarily against bovine tuberculosis, brucellosis, and fever tick. Feeder cattle must be accompanied by a health certificate from a salaried veterinarian of the Mexican government showing that the animals have been inspected and have no communicable diseases.

The U.S. demand for Mexican cattle is high, but due to the prevalence of tuberculosis in Mexico's cattle herd, the major concern of U.S. cattle industries is the risk of infection transferring to U.S. herds. The U.S. and Mexico have reached an agreement requiring steers from Mexico to be branded on the right jaw with the letter "M" to clearly identify their origin and improve surveillance for bovine tuberculosis.

In addition, U.S. authorities require that Mexican cattle be

- tuberculin tested with negative results between 3 to 12 months prior to the animals' date of entry;
- detained at the port of entry for health inspection and dipped for ticks in a pesticide solution;
- certified as coming from a herd which tested negative for brucellosis infection between 30 to 90 days prior to the date of certification; and
- tested again for brucellosis at the port of entry, except for calves under 6 months, and if any cattle in the herd test positive for brucellosis, the herd will not be allowed into the United States.

Most other live animal imports from Mexico are banned because they allegedly carry diseases which do not exist in the United States. Live Mexican swine have been prohibited since 1976 due to the hog cholera infection. Mexican poultry has been prohibited since the early 1970s due to Exotic New-Castle disease, and Mexican sheep and goats are prohibited because of scrapies.

Issues Related to Safety for Human Consumption

The United States has also restricted imports of Mexican agricultural goods when there have been concerns regarding the safety of specific products for human consumption. For example, in 1984 Mexico lost its eligibility to export meat products to the United States, because the USDA Food Safety and Inspection Service determined that some of Mexico's inspection methods were faulty and failed to capture unacceptable levels of chemical residues in meat. In January, 1989, the service ruled that Mexico could resume shipping meat products from five approved facilities, which were judged to meet U.S. standards.

At times Mexican horticultural imports have also been denied access to the United States, when they have been tested and found to contain traces of banned pesticides or higher than tolerable levels of pesticide residues as defined by the Environmental Protection Agency. However, USDA and other experts agree that Mexican produce exported to the United States is generally safe and free from dangerous pesticide residues.

U.S. concern for the safety of produce destined for human consumption also limits Mexico's ability to introduce tropical fruits to the U.S. market. The experience of the Mexican mango, which is now an established export, is worth considering. Like other fruits from Mexico, mangoes host a variety of fruit flies. Mexican producers relied on an ethylene dibromide treatment to ensure that exported mangoes would not carry the pests to the United States. However in 1985, the Environmental Protection Agency banned the use of ethylene dibromide, as a potential health hazard, effectively eliminating Mexican mangoes from the U.S. market. Subsequently, U.S. authorities approved an alternative treatment, now in effect, requiring the green fruit to be dipped in hot water for several minutes to kill the pests. It is a very delicate treatment, and if not done carefully, has an adverse effect on ripening.

Mexican Transportation and Infrastructure

Mexico has one of the most comprehensive land transportation systems of any country in Latin America. The railroads and highways form a network linking all economically important areas to the major seaports and connect with the United States at 12 border cities. Nonetheless, Mexico's transportation infrastructure has been inadequate to handle the large increase of trade in recent years and if not improved, will continue to limit trade volume between the two countries.

According to a USDA report, Mexico's rail system is outdated and lacks the capacity to carry the increasing cargo bound from the United States to Mexico. Storage facilities are also lacking and U.S. rail cars are often used as storage facilities. Roads in Mexico are reported to be in general disrepair making transportation of goods by truck to the border a slow process. U.S. truckers also complain because they are prohibited from operating in Mexico while Mexican truckers have the privilege of entering the United States with their cargo. Port facilities also need to be improved.

Rail

Congestion on Mexico's rail lines extends to the U.S. border, where carloads of imported supplies and materials awaiting export face delays as long as 2 weeks or more. These problems are due, in part, to the fact that Mexico's railroad links with the United States were built for easy control of border traffic and not to facilitate foreign trade. The single lines laid at all border crossings are now unable to handle the increasing commercial traffic.

In addition, outdated unloading facilities delay the turnaround time of U.S. rail cars going to Mexico. Due to the lack of warehouses for unloading grain near the border, U.S. rail cars are used for storage. These rail cars are held at the border until a decision is made regarding cargo destination within Mexico. Subsequently, the cars are repeatedly held up at different distribution points in the interior of Mexico where there is also a lack of storage facilities. A 1989 study by Union Pacific Railroad determined that the average turnaround time for rail cars for all Mexican destinations is approximately 20 days. However, the average turnaround time for rail cars from the U.S. to Mexico City is 40 days. At times thousands of U.S. rail cars have been held in Mexico.

Due to delays in returning rail cars and congestion at the border, U.S. rail companies have refused on several occasions during 1989 to accept any Mexican-bound shipments and imposed a de facto embargo. Rail delays and embargoes on agricultural shipments resulted in lost revenues for the shippers, and increased prices for food in Mexico.

Over the last decade it was estimated that 60 percent of bulk commodities moving from the United States to Mexico was moved by sea and 40 percent by rail. However, officials report that in 1989, due to the increased volume of trade, 80 percent of U.S. bulk commodities were moved by sea and 20 percent by rail. When they are forced to shift to ocean transport U.S. bulk grain exporters forfeit a degree of the competitive advantage they generally enjoy over exports from Australia, Canada, or Argentina.

Clearance procedures at the U.S.-Mexico crossing points complicate and delay the movement of railcars across the border. Current problems which have been identified by U.S. officials include excessive paperwork and lack of pre-manifesting or pre-clearing shipments going into Mexico. This creates delays. In addition, Mexican customs are rarely open during weekends and are occasionally closed during some normal working hours.

Storage

Substantial improvement and augmentation of storage facilities would aid the economic development of Mexico and help the United States to meet Mexico's import needs. Present storage procedures include making use of railroad cars and open, uncovered piles. Inefficiency and loss could be greatly minimized by improving storage capabilities.

Ocean Transport

Although 36 of Mexico's ports have deep-water, none provide a good harbor. Five ports handle 80 percent of all the shipped tonnage. Increased petroleum shipments, lack of cargo-handling facilities, and administrative bureaucracy also contribute to port congestion. Some Mexican shippers find it expedient to send their agriculture exports to Japan and Europe from ports in Texas and on the U.S. Pacific Coast.

Trucking

While Mexican truckers are permitted to bring their cargo into the United States, Mexico prohibits equivalent access to American truckers. Mexican truckers are allowed to operate within the parameters of U.S. commercial zones, areas which are defined based on a mileage/population density formula. U.S. trucking companies are requesting more liberal access to the Mexican border zone and, in the short run, more efficient ways to transfer long-haul cargoes at the border. In the long run, U.S. trucking interests believe it would be beneficial for both countries to allow carriers free access to the interior.

Mexican exporters are also pressing for improvements in the transportation infrastructure to facilitate their exports. Highway construction and maintenance have been neglected, and many Mexican roadways and bridges are in disrepair. Improvements in this area could improve the environment for imports and the internal distribution of goods in Mexico.

Administrative Procedures

Congestion, bottlenecks, and excessive delays characterize conditions at border crossing points between the United States and Mexico. We visited Nogales, Arizona, the principal point of entry for Mexican horticultural products, handling more than 50 percent of the volume.

Mexican roads leading to the border crossing point with the United States at Nogales narrow from four lanes into one as they approach the border line where cargo must be inspected before release into the United States. Trucks arriving in Nogales must form single lines to go through customs and other inspections. Officials estimate that during the height

of the produce import season, from November through May, long lines of trucks await processing, often extending for as long as three miles. Approximately 700 trucks of produce are processed each day.

According to Customs officials, customs processing can be completed in less than 90 minutes for items eligible for an expedited release program called Line Release. However, U.S. officials estimate that it can take a truck as much as 7-1/2 hours to go through the border procedures at Nogales if the cargo is required to undergo 100-percent inspection. Moreover, because Customs and other inspection offices are closed at night, trucks not processed during normal working hours must park along the road and wait for the offices to open. U.S. Customs officials stated they would stay open at night during the peak season if Mexican Customs also remained open.

A narrow two-lane entry roadway limits the flow of traffic into the customs processing facilities on the U.S. side of the border, contributing to the congestion. According to U.S. customs officials, work on widening the road is scheduled to start in April 1990, and be completed in approximately 18 months.

Inconsistencies and Irregularities

Border officials report that U.S. agencies do not have consistent administrative procedures for processing Mexican imports along the border; for example, Agricultural Marketing Service personnel make quality inspections only at some border points. In addition, according to an APHIS official, APHIS office directors at border crossing points may choose whether or not to allow products to be accepted for import under Customs' Line Release system (discussed below). Consequently, products may require certain inspections at one border crossing point, but not at another.

U.S. officials and exporters also complain that administrative irregularities at Mexican customs often delay and complicate processing of U.S. exports to Mexico. Irregular working hours by Mexican customs officials and inconsistent health certificate requirements are two examples of the difficulties encountered at the border by U.S. exporters.

U.S. and Mexican customs officials have held periodic consultations since 1987 and have agreed on some specific ways to facilitate cross-border trade.

Line Release

In 1987 U.S. Customs expanded its Automated Commercial System to process imports along the southern border. Termed Line Release, it is designed to facilitate the entrance and clearance of certain Mexican commodities through the use of personal computers and bar code technology. To qualify for Line Release, commodities must have a history of invoice accuracy, be free of enforcement concerns (marking violations, penalties, seizures, fraud, and suspect narcotics), require no special documentation, and be selected by local customs districts on the basis of high volume and low risk. The Line Release system's automated process allows for quick, computerized identification of the commodity, producer, importer, and broker.

Customs, in consultation with USDA and the Food and Drug Administration (FDA), approved two major agricultural imports, cucumbers and tomatoes, for Line Release from Mexico. Tomatoes and cucumbers were selected because of pest- and chemical residue-free records. These imports receive expedited handling from all three agencies. Other agricultural products approved by Customs for Line Release are cantaloupe, kabosha squash, and watermelon, but they still require inspection by USDA and FDA before release. Live cattle imports are also approved for Line Release. The cattle are inspected by USDA's Veterinary Service in Mexico. Customs officials believe that expanding the number of commodities approved for Line Release would further enhance the flow of commerce from Mexico to the United States.

Mexican Debt Crisis

Mexico's outstanding external debt, which totaled more than $100 billion in 1988, is a major economic constraint to U.S.-Mexican trade. More than 50 percent of Mexico's annual export earnings were needed to service this debt. Despite recent successful debt negotiations, scarce foreign exchange in Mexico limits imports of U.S. agricultural products. Fiscal austerity measures enacted by Mexico to deal with the debt problem affect agricultural policies that in turn affect production and consumption incentives. On the other hand, the need to increase foreign exchange earnings has led to liberalized export policies and an increase in the export of fresh fruits and vegetables, for which there is considerable foreign demand.

Confronted with the second largest foreign debt of any Latin American country, the Mexican government has lowered subsidies on some staple food products, cut back on government programs to aid agriculture, and implemented policies designed to liberalize trade and attract foreign

investment. A 1988 Congressional report prepared for the Joint Economic Committee notes that Mexico represents a large potential market where U.S. firms enjoy a natural advantage due to the geographic proximity of the two countries. Mexico ranks fourth as a destination for U.S. agricultural exports, even after 6 years of drastic import restraint.

A reduction in Mexico's foreign debt service burden would be a significant step in enhancing agricultural trade between the United States and Mexico. With more funds available, Mexico could purchase more U.S. export commodities as well as other goods necessary for economic growth.

Poor Access to Marketing and Distribution

Limited access to and knowledge of the U.S. market and distribution system have been identified as major constraints for Mexican producers in expanding fruit and vegetable exports. A recent report by the Mexican National Confederation of Horticultural Producers (CNPH) notes that generally Mexican producers do not participate in the distribution of their products in the U.S. market and some distributors and brokers take advantage of producers. According to a CNPH spokesman, about 18 cents of every dollar made on sales actually gets back to the producers. CNPH has tried to overcome some of these problems by establishing a presence in Los Angeles, California, to monitor developments in that sector of the U.S. market. Timely access to better market data, such as that prepared by the USDA Agricultural Marketing Service, may also help overcome this problem.

U.S. grain exporters have also experienced problems because prospective Mexican buyers and traders lack knowledge of the U.S. marketing system. In an effort to overcome some of these problems, some U.S. commodity trade associations have sponsored seminars in Mexico to familiarize public and private sector Mexican officials with grain quality and standards, transportation, and USDA credit programs. According to USDA officials, lack of knowledge about the Mexican market and distribution system is also a significant deterrent for U.S. producers of horticultural products.

Economic and Market Trends Affecting Bilateral Agricultural Trade

The combined value of U.S. agricultural exports to Mexico and Mexican agricultural exports to the United States increased from about $2.3 billion in 1982 to over $4 billion in 1988. The value of this trade grew by an average of 11.6 percent annually, the highest growth rate among major U.S. agricultural trading partners. U.S. agricultural trade with Mexico increased from 4.4 percent of total U.S. agricultural trade worldwide in 1982, to 7.8 percent in 1988.

Since 1982, Mexico has ranked among the top 8 markets for U.S. agricultural exports and has been one of the top three suppliers of U.S. agricultural imports. (See Tables II.1 through II.3.) During the same period, the United States has been Mexico's major supplier of agricultural products and the largest market for Mexican agricultural exports.

Table II.1: Major U.S. Markets and Suppliers of Agricultural Products (1988)

Dollars in millions

Major U.S.markets	Value of U.S. exports	Major U.S.suppliers	Value of U.S. imports
Japan	$7,640	Canada	$2,443
South Korea	2,273	Brazil	1,867
U.S.S.R.	2,246	Mexico	1,820
Mexico	2,234	Australia	1,207
Netherlands	2,051	Indonesia	884
Canada	2,019	Colombia	818

Source: Economic Research Service, Foreign Agricultural Trade of the United States.

Table II.2: Mexico's Ranking Among Major Markets for U.S. Agricultural Exports

Dollars in millions

Year	Total U.S. agricultural exports	Exports to Mexico		
		Value	Ranking	Percent of total
1982	$36,627	$1,156	8	3.2
1983	36,099	1,942	3	5.4
1984	37,804	1,993	4	5.3
1985	29,041	1,439	4	5.0
1986	26,222	1,080	6	4.1
1987	28,709	1,202	7	4.2
1988	37,093	2,234	4	6.0

Source: Economic Research Service, Foreign Agricultural Trade of the United States.

Table II.3: Mexico's Ranking Among Major Suppliers of U.S. Agricultural Imports

Dollars in millions

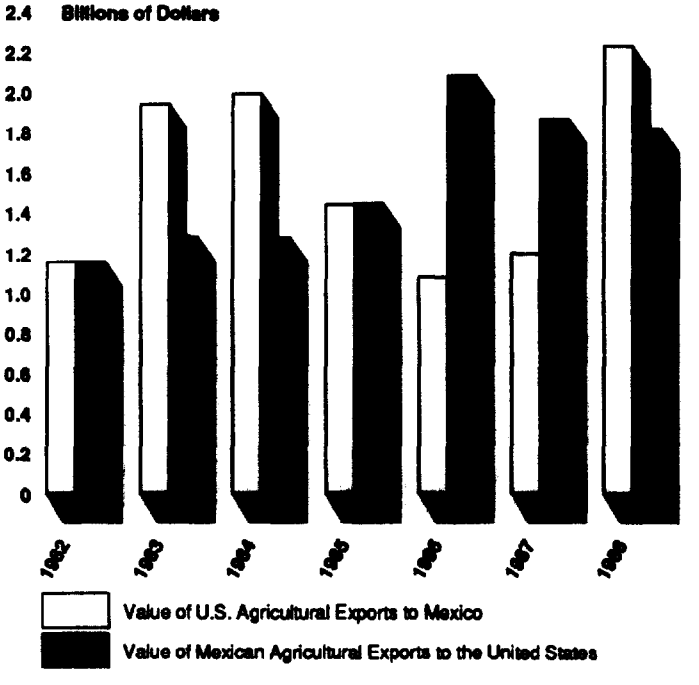
Year	Total U.S. agricultural imports	Imports from Mexico		
		Value	Ranking	Percent of total
1982	$15,389	$1,158	3	7.5
1983	16,627	1,280	3	7.7
1984	19,334	1,279	3	6.6
1985	19,968	1,446	3	7.2
1986	21,453	2,080	1	9.7
1987	20,402	1,867	2	9.2
1988	20,951	1,820	3	8.7

Source: Economic Research Service, Foreign Agricultural Trade of the United States.

Agricultural Trade Flows: 1982-1988

While there has been impressive growth in bilateral agricultural trade between 1982 and 1988, this period has also been characterized by dramatic fluctuations in agricultural trade between the two countries. Mexican exports to the United States increased modestly between 1982 and 1985, surged impressively in 1986, and have registered minor losses since that peak year. Conversely, U.S. exports to Mexico have been subject to major decreases and increases over this 7 years. (See figure II.1.)

Figure II.1: Value of U.S.-Mexican Agricultural Trade (1982-1988)



Source: U.S. Department of Agriculture data.

1982

Despite attempts to achieve self-sufficiency in basic foodstuffs under the administration of President Jose Lopez Portillo (1977-1982), Mexico's imports of U.S. agricultural products more than doubled between 1978 and 1981, from $902 million to $2.4 billion. This dramatic expansion in demand for U.S. agricultural goods was fueled by population growth, an overvalued exchange rate, and increased per capita income associated with Mexico's oil boom.

During this period, Mexico borrowed heavily from abroad to finance industrial development, with the expectation that oil revenues would be available to service external debt. However, in the wake of the severe international recession beginning in 1981, international commodity prices declined precipitously. Oil revenues were lower than expected and foreign capital dried up.

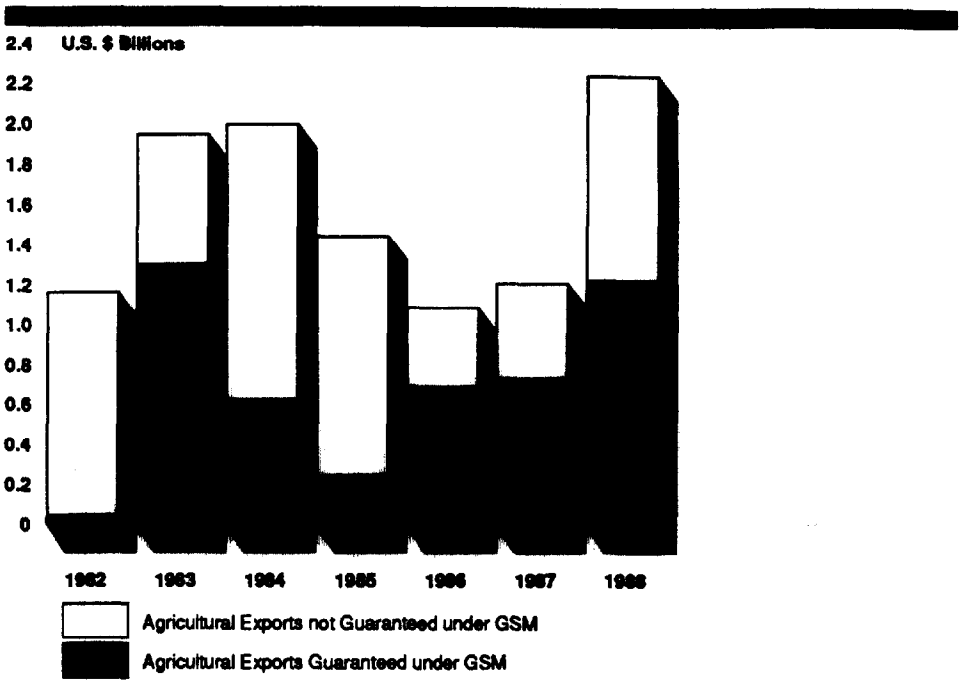
In 1982, Mexico experienced its most serious economic crisis in recent history—250 percent devaluation in the controlled exchange rate and 450 percent devaluation in the free exchange rate, prices of imports soared, and the government imposed measures to reduce the quantity of

imports. Consequently, in 1982 U.S. agricultural exports to Mexico were cut in half, to $1.1 billion. Austerity measures curtailed credit available to Mexican farmers. However, Mexican agribusiness and export crops were not as hard hit by the credit crunch, and they benefitted from devaluation and a drop in real wages. In 1982, Mexican agricultural exports to the United States enjoyed modest growth over 1981 levels.

1983

The new administration of President Miguel de la Madrid, which came to power in 1983, encouraged non-oil exports and continued austerity measures. This strategy succeeded in cutting most imports and Mexico enjoyed an impressive overall trade surplus of $13.3 billion in 1983. Mexican agricultural exports to the United States grew by more than 10 percent, to more than $1.2 billion. Nevertheless, U.S. agricultural exports to Mexico also rebounded in 1983. Continued cuts in public investment and lending to the agricultural sector and severe drought beginning in 1982 adversely affected Mexican agricultural production, which led to an increased demand for agricultural imports from the United States. Another important factor leading to increased demand for U.S. agricultural products was the availability of financing through USDA's agricultural export credit guarantee programs known as GSM-102 and -103. In 1983 more than half of U.S. agricultural exports to Mexico were financed by GSM credits. (See figure II.2.)

Figure II.2: GSM Guaranteed Commodities and Total U.S. Agricultural Exports to Mexico (1982-1988)



Source: U.S. Department of Agriculture data.

1984

With adequate rainfall in 1984, Mexican agricultural production began recovering from the drought of the prior 2 years. However, inflationary pressures created difficulties for Mexico's agricultural sector by raising the cost of such items as seeds and fertilizers. Even though the volume of Mexican agricultural imports decreased from 1983 levels, higher prices raised the value of U.S. agricultural exports to Mexico in 1984. However, prices for some major Mexican vegetable exports were low, and the value of agricultural exports to the United States for 1984 remained at about the 1983 level.

1985

Timely rains and near-capacity water levels in storage reservoirs allowed Mexico's production of major crops to increase in 1985. Mexican agricultural exports to the United States increased by 13 percent. In 1985, the Mexican government established a controversial policy for public purchasing which called for final grading and pricing of certain commodities to be determined at destination rather than origin. This policy led to an impasse between U.S. bulk commodity exporters and Mexican government purchasing agents. The effect of Mexican recession and

increased agricultural production, combined with problems associated with the new policy, contributed to a decline of 28 percent in U.S. agricultural exports to Mexico.

1986

While Mexican agricultural production in 1986 was actually lower than in 1985, agricultural exports to the United States achieved their highest historical levels, totaling more than $2 billion. High coffee prices accounted for a large portion of this increase. However, other Mexican export crops also experienced significant growth. Conversely, deteriorating economic conditions within Mexico, especially declining consumer purchasing power, and further weakening of the exchange rate, reduced demand for foreign agricultural products. U.S. agricultural exports to Mexico plummeted to $1.08 billion, the lowest level during the 1980s.

1987

In 1987 Mexico's agricultural trade surplus with the United States was considerably smaller than it had been in 1986. While overall production of such export crops as fruits and vegetables increased, production of crops for domestic consumption, such as grains, declined. Low rainfall, tight credit, and high production costs were major factors affecting this decline. Reduced domestic grain supplies and lower international commodity prices resulted in increased demand for foreign agricultural products. In 1987, U.S. agricultural exports to Mexico grew by 10 percent over the previous year to $1.2 billion. A decline in the value of major Mexican export crops—coffee prices fell by 27 percent and tomato prices by 52 percent—reduced the value of agricultural exports to the United States to $1.9 billion.

1988

Due to drought, hurricanes, high input costs and low guarantee prices, Mexico's agricultural production declined 4 percent in 1988. Among the hardest hit sectors were dairy, poultry and other livestock. A substantial number of small and medium-sized farm operations were forced to liquidate their herds and flocks because they could not afford feed costs and meet the fixed consumer prices set by the government.

In an effort to maintain low consumer prices, the Mexican government allowed major increases in live animal and dairy imports from the United States. U.S. grain exports also expanded considerably. Overall, the value of Mexican imports of U.S. agricultural products rose to $2.2 billion, the highest level since 1981. Mexican agricultural exports to the United States remained close to 1987 levels. Some Mexican exports,

such as orange juice and feeder cattle, showed significant increases, but declines in the volume of coffee and beer exports and low prices for tomatoes limited expansion in the value of exports to the United States.

U.S. Agricultural Imports From Mexico

Since 1982, Mexico has ranked among the top three suppliers of agricultural commodities to the United States, principally coffee, fruits and vegetables, and live cattle. In recent years, Mexico has also become an important supplier of processed foods (see figure II.3) including tomato sauce and paste and beverages such as fruit juices and beer.

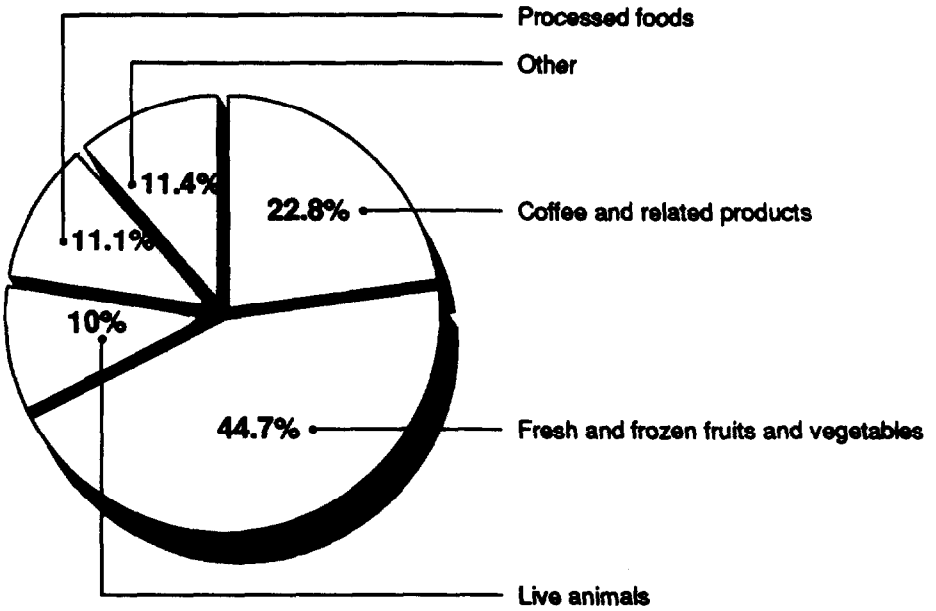
Coffee Products

Coffee is Mexico's second largest export after petroleum products, and the single largest agricultural product Mexico exports to the United States. In 1988 Mexico was the fourth largest producer of coffee in the world. Coffee and related products accounted for approximately 16 percent of the total value of Mexican agricultural exports to the United States in 1988.

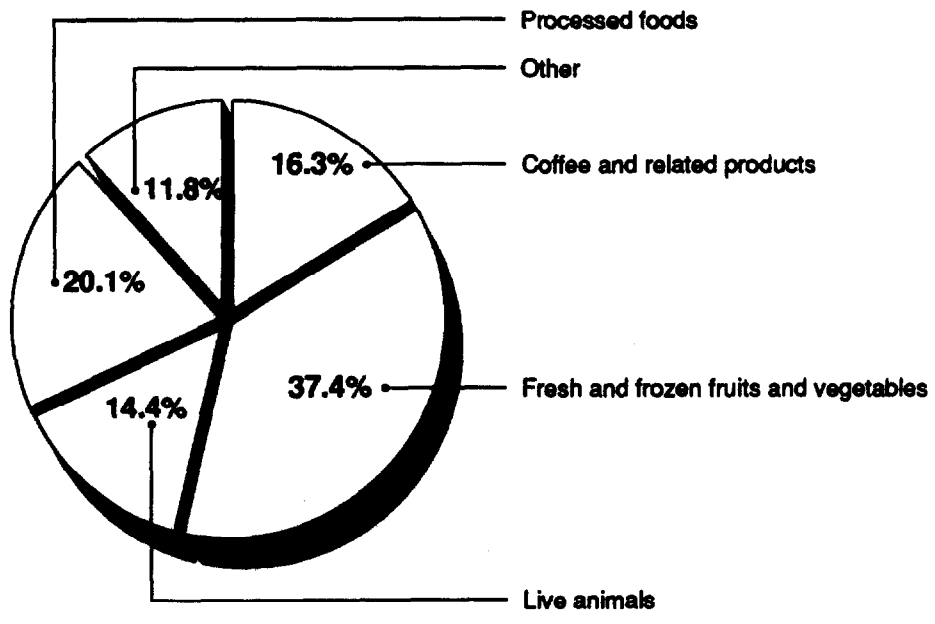
Mexico is a member of the International Coffee Organization (ICO). The ICO is a cartel that establishes a series of threshold prices for coffee. If the international price of coffee falls below these thresholds, export quotas for member countries are cut to reduce world supply in an effort to increase market prices above the threshold price. In the summer of 1988 the international price of coffee fell below the $1.15 per pound threshold, triggering a reduction in export quotas. Consequently, Mexico had to reduce the amount of coffee exported. The value of Mexico's coffee exports to the United States declined from $399 million in 1987 to $296 million in 1988.

In 1989 the international price of coffee continued to decline, putting pressure on the ICO member countries to reduce export quotas even further. In June 1989, ICO member countries were unable to come to an agreement on export quotas and the economic provisions of the International Coffee Agreement were suspended. Currently, there are no quotas for Mexican coffee exports.

Figure II.3: Mexican Agricultural Exports to the United States (1982 and 1988)



Total Value 1982: $1.2 Billion



Total Value 1988: $ 1.8

Source: U.S. Department of Agriculture data.

Fresh and Frozen Fruits and Vegetables

Fresh and frozen fruits and vegetables are the largest category of Mexican agricultural exports. [1] In 1988, U.S. imports of such products from Mexico were valued at $679 million, or about 37 percent of the total value of U.S. agricultural imports from Mexico. Tomatoes comprised the largest item and in 1988 accounted for more than 20 percent of the value of U.S. imports of fresh and frozen fruits and vegetables from Mexico. Other established major products in this category include cucumbers, peppers, squash, eggplant, onions, bananas, cantaloupes, watermelons, mangoes, and grapes.

Mexico's fruit and vegetable production industry is concentrated in the northwestern states of Sonora and Sinaloa, although production is moving into new areas, particularly in the states of Northern and Southern Baja California. Development of the horticultural export industry was encouraged by climatic conditions which made possible a counter-cyclical growing season, allowing Mexican farmers to take advantage of the U.S. demand for winter vegetables. The importance of U.S. demand is reflected in the fact that about 90 percent of most Mexican fresh fruit and vegetable exports are destined for the U.S. market. More than 50 percent enter the United States between December and May, when U.S. production is relatively low.

Ample labor, government investment in irrigation facilities, and well-organized growers' associations have contributed to the development of Mexico's fruit and vegetable export industry. Since 1982, the devaluation of the Mexican peso has also encouraged the growth of this industry. In addition, U.S. private capital and technology have been available for the expansion of farm operations and the development of freezing plants.

Major expansion of Mexican horticultural exports to the United States took place during the 1970s according to USDA officials. However, between 1982 and 1988, these exports grew at an average rate of just over 5 percent annually, slower than the average rate of growth for Mexican agricultural exports as a whole. The slowdown of more established Mexican fruit and vegetable exports has encouraged diversification. The combined value of shipments to the United States of new

[1] For our analysis of Mexican agricultural exports to the United States, we relied on data provided by USDA's Economic Research Service (ERS). While frozen fruits and vegetables are commonly classified under processed foods, ERS statistics combine fresh and frozen fruits and vegetables.

Mexican vegetable crops, such as asparagus, lettuce, broccoli, cauliflower, brussels sprouts and celery, more than doubled between 1982 and 1988.

Cattle

The value of Mexican live animal exports to the United States increased from approximately $116 million in 1982 to more than $262 million in 1988. Most of these live animal exports are cattle imported for fattening rather than immediate slaughter. Cattle exported to the United States originate in northern areas of Mexico, which have been declared free of serious contagious diseases. The development of the export cattle industry in northern Mexico has been encouraged by the growth of commercial feed lots in the United States.

During the economic crisis of the 1980s, the Mexican cattle industry also turned increasingly to exports to offset declines in domestic demand. However, to assure an adequate supply of meat products for domestic consumption and reduce inflationary pressure on meat prices the Mexican government has sought to limit cattle and beef exports by placing high export duties on these products or temporarily suspending exports altogether.

Processed Foods

Between 1982 and 1988, Mexican processed food exports to the United States increased at an average annual rate of nearly 21 percent.[2] In 1988 the combined value of some of the more significant processed food exports to the United States was $365 million. This represented 20 percent of Mexican agricultural exports in 1988, compared to 11 percent in 1982. Some of the most successful Mexican processed food exports include tomato paste and sauce, frozen orange juice, and beer.

U.S. Agricultural Exports to Mexico

Proximity to the Mexican market and the availability of medium-term financing through the GSM program have allowed the United States to maintain its position as Mexico's principal supplier of agricultural goods during the difficult economic period since 1982. The major U.S. agricultural exports to Mexico are oilseeds and coarse grains. Live animals,

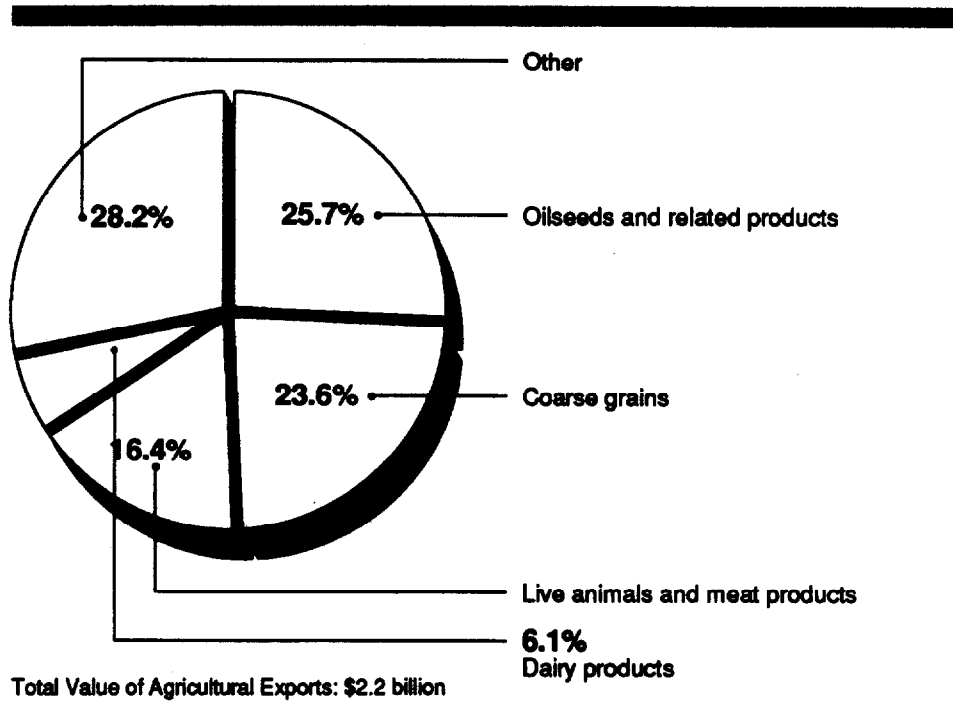
[2]Our selected processed foods category includes alcoholic beverages, fruit juices, prepared and preserved vegetable products, prepared and preserved fruit products, biscuits and wafers, pasta and noodles, confectionery products and meat products. Our data do not include frozen fruits and vegetables. Estimates of average annual growth rates for Mexican processed food exports, including frozen fruits and vegetables, range between 16 and 17 percent.

meats, and dairy products are also prominent among U.S. exports to Mexico. (See figure II.4.)

Oilseeds

Between 1982 and 1988 oilseeds were among the top three categories of U.S. agricultural exports worldwide. In 1988 oilseeds accounted for $5.1 billion, or 13.8 percent, of total U.S. agricultural exports; about 8 percent of these oilseed exports, valued at $403 million, went to Mexico. That year oilseeds and related products exports represented 25.7 percent of U.S. exports to Mexico. Soybean is the major oilseed crop, accounting for more than 80 percent of the total value. U.S. soybean exports to Mexico are used for animal feed and for vegetable oil. Mexico also relies on domestic soybeans for its needs.

Figure II.4: U.S. Agricultural Exports to Mexico (1988)



Source: U.S. Department of Agriculture data.

Coarse Grains

In 1988, coarse grains and related products valued at $527 million represented 23.6 percent of U.S. agricultural exports to Mexico. The two major crops within this category are corn and sorghum.

U.S. corn exports to Mexico are used for human consumption as well as livestock feed. Corn is the basic staple of the Mexican diet. More than 50 percent of the cropland in Mexico is devoted to corn production. However, most corn is grown on rain-fed land. During the 1980s, recurrent droughts disrupted production and reduced yields. The Mexican government tried to maintain affordable supplies of corn, importing large amounts from the United States. Sorghum is used only as animal feed in Mexico. Its importance has declined as Mexican meat consumption has been reduced during the economic crisis Mexico has endured since 1982.

Live Animals and Meat Products

Even though Mexico exports cattle to the United States for fattening, Mexico also imports breeder cattle and other animal products from the United States. In 1988 there was a dramatic increase in Mexican imports of U.S. cattle, swine, poultry, and meats. That year the value of U.S. live animal and meat exports to Mexico was nearly 4 times what it had been in 1987. This increase was due to the Mexican government's efforts to maintain low consumer prices for these commodities through imports. In 1988 the value of U.S. live animal and meat exports to Mexico reached $447 million.

Dairy Products

Dairy products have been a traditional U.S. export to Mexico. Mexico has depended on subsidized U.S. nonfat dry milk exports to provide for a significant portion of its milk consumption. However, in 1987 the United States Department of Agriculture terminated subsidized nonfat dry milk exports to Mexico as U.S. surplus stocks were depleted. In 1988, U.S. dairy exports to Mexico reached $136.8 million, accounting for 6 percent of the value of U.S. total agricultural exports to Mexico.

U.S. Credit Programs

Mexico is one of the major beneficiaries of the GSM programs. (See Figure II.2.) In 1988 and 1989 Mexico ranked first among the users of GSM credit guarantees. Approved GSM credit guarantees to Mexico have risen from $38 million in 1982 to $1,217 million in 1988. In 1989, $1,138 million in GSM-102 and $122 million in GSM-103 credit guarantees had been approved for Mexico. While the terms for repayment for loans guaranteed under the GSM-102 program are 6 to 36 months, those for GSM-103 loans are in excess of 3 years, but no more than 10 years.

Objectives, Scope, and Methodology

The principal objectives of this briefing report are to (1) identify current impediments to trade between the United States and Mexico and (2) provide data on trade flows between the two countries from 1982 to 1988. The information presented is based primarily on official documents and interviews with officials from the Department of Agriculture, the Office of the U.S. Trade Representative, and other government agencies. We also relied on studies and position papers provided by academic institutions, international organizations, and industry groups.

In Washington, D.C., we interviewed officials responsible for trade and/or Mexican affairs at the Office of the U.S. Trade Representative; the Department of Agriculture's Foreign Agricultural Service, Economic Research Service, Agricultural Marketing Service, and Animal and Plant Health Inspection Service; the Department of Commerce's International Trade Administration; the International Trade Commission; the Department of the Treasury's Customs Service; the Department of Transportation's Federal Railroad Administration, and the Office for Policy and International Affairs; and the Food and Drug Administration. We also met with the Agricultural Counselor and an assistant to the Economic Counselor for the Mexican Embassy. We also consulted officials familiar with Mexican economic and agricultural trends at the World Bank. We collected and reviewed official documents, statistics and reports from all of these government and international agencies.

We also interviewed agricultural trade experts at the University of California at Davis and Berkeley and reviewed various works and studies prepared by experts from these and other academic institutions concerning U.S.-Mexican agricultural trade. We met with spokespersons for various California-based industry groups, including the Western Growers Association, California Farm Bureau Federation, and California Federation of Food Processors. In addition, we interviewed a spokesman for the National Confederation of Horticultural Producers, Mexico's largest association of fruit and vegetable producers. We visited Sacramento, where we met officials from the California State International Trade Commission, California Department of Food and Agriculture, and Select Committee on California-Mexican Affairs.

We visited Nogales, Arizona, the major port of entry for Mexican horticultural exports to the United States, and its sister city Nogales, Sonora, in Mexico. During this trip we observed the process required for Mexican agricultural exports to enter the United States. We met with officials from U.S. government agencies responsible for administering agricultural import processing and inspection programs, including officials

from the Customs Service, the Animal and Plant Health Inspection Service, the Arizona Federal/State Inspection Service, and the Food and Drug Administration. We interviewed representatives of West Mexican Distributors, an association of U.S.-based distributors of Mexican agricultural produce, and of the Southern Pacific Railroad, a major handler of U.S. agricultural exports to Mexico via rail. In Nogales, Sonora, we met spokesmen for CNPH and the Association of Horticultural Producers of Sinaloa.

This review was conducted in accordance with generally accepted government auditing standards. As requested by your office, we did not obtain agency comments on this briefing report. However, the information presented was discussed with appropriate officials of Agriculture and Customs and their views were considered in completing the report.

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