



The Future of North American Market Integration

A Mexican Perspective

Presented by:

Ing. José Villasana Gutiérrez

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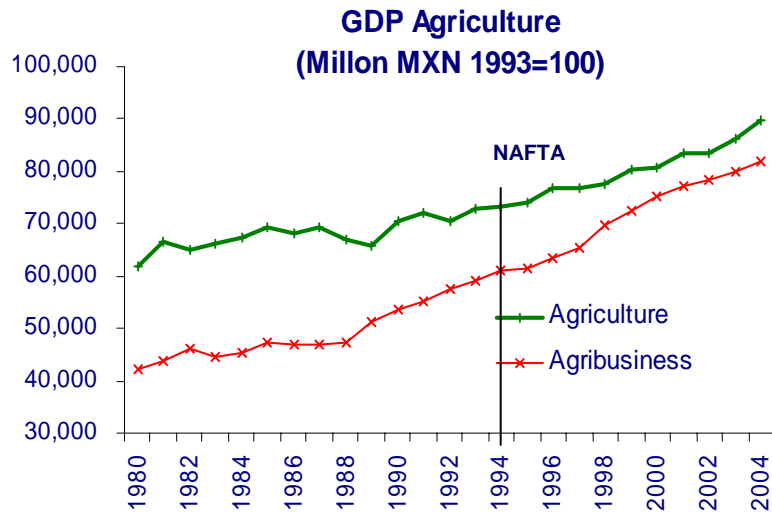
Agenda

1. Main impacts of NAFTA in Mexican agribusiness sector
2. The new global environment: key trends
3. A new vision for NAFTA
4. Forward-looking integration
5. Final remarks

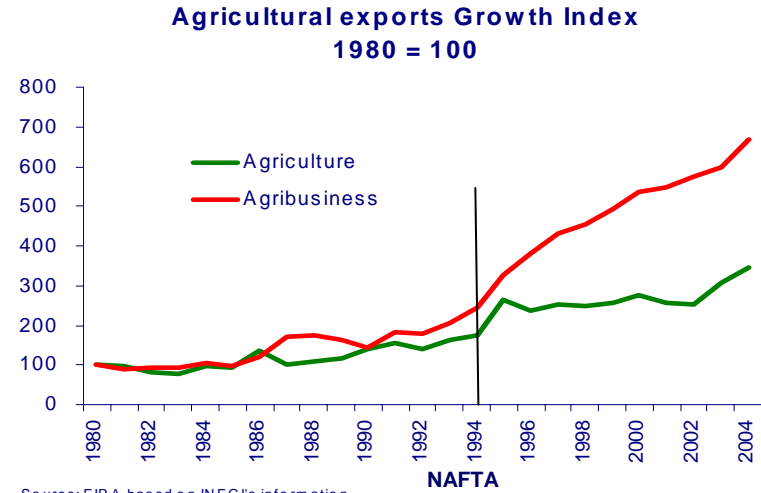
Several outputs were expected in the agribusiness sector as a result of NAFTA

1. An increase in trilateral trade, with particular emphasis on the US-Mexico bilateral exchange
2. An increase in Mexican exports of value-added and consumer-oriented products
3. Important gains for Mexican consumers from more competitive prices

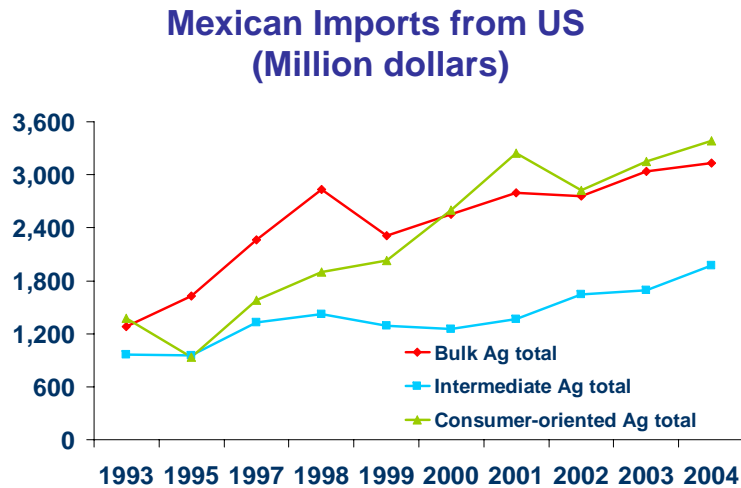
Figures show that many of the expected results have materialized



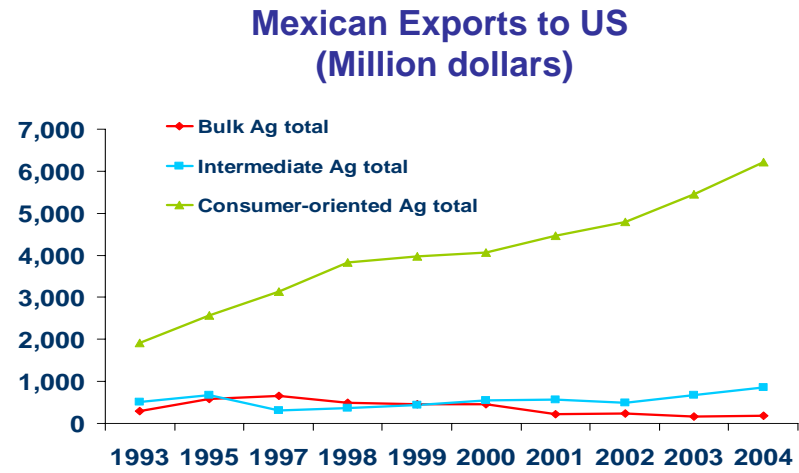
Source: FIRA based on INEGI's information



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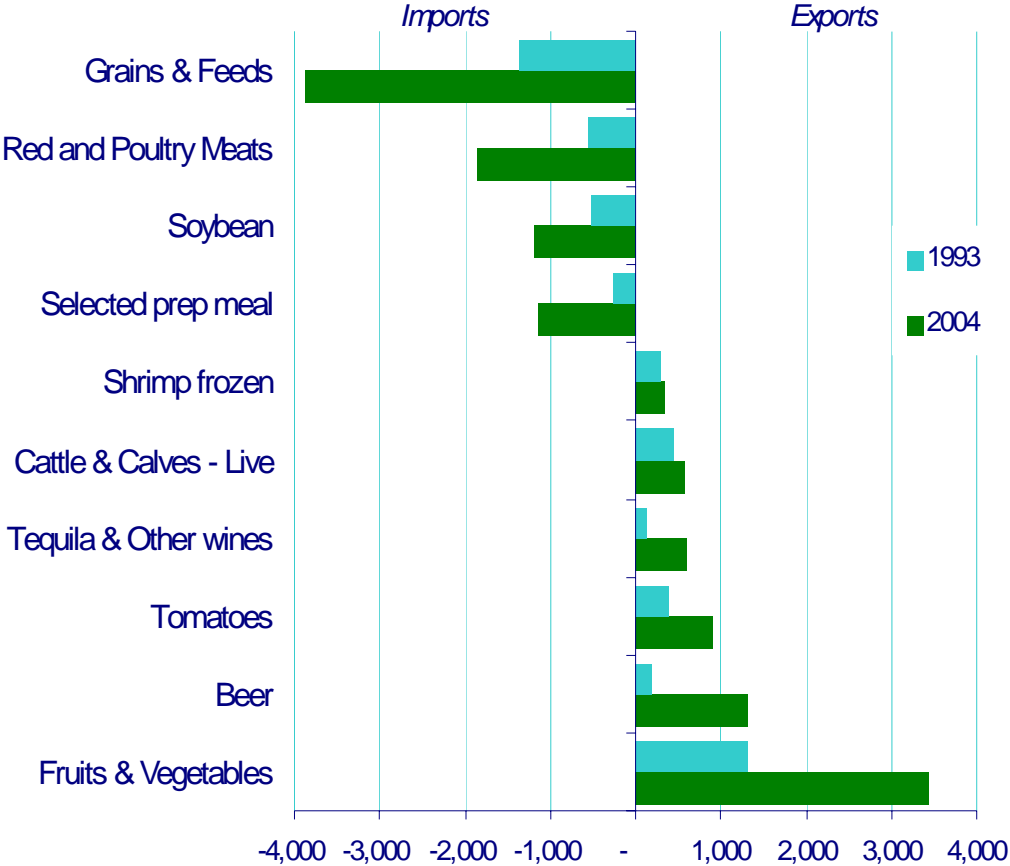
Source: US Bureau of the Census Trade Data. BICO Reports



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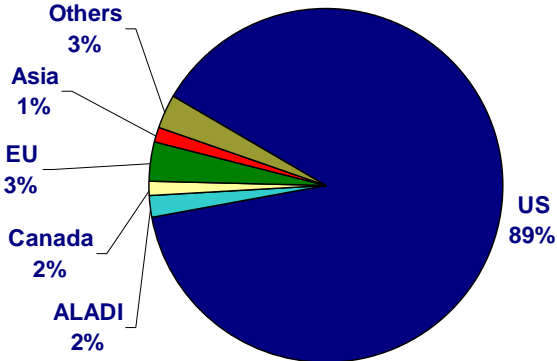
Fruits, vegetables, prepared foods and beverages explain most of the increased exports

Mexican Agricultural Imports & Exports
Million dollars

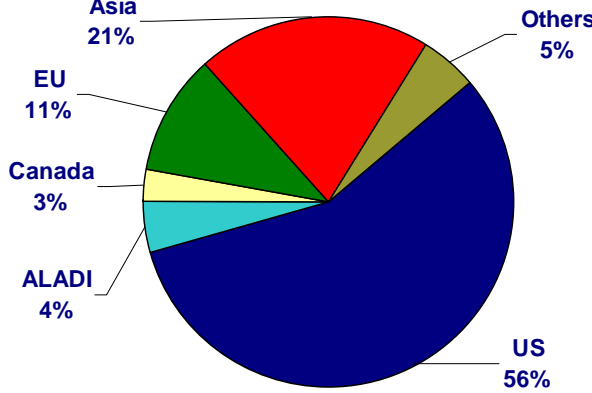


Mexican trade by region

Exports 2004



Imports 2004



Source: FIRA based on INEGI's information

As a result of increased trade, low income population in Mexico has improved their protein intake

More competitive prices and changes in consumer behavior have resulted in a higher consumption of animal protein among low income population

Amount spent by income group (in Mx. Pesos)

Income Segment	Product	Year		Change	
		1996	2002*	Absolute	%
Low income (bottom 30% in household income)	Meat (beef, pork, chicken)	\$10,108 million	\$13,908 million	\$3,800 million	38
	Fresh fruits	\$354 million	\$575 million	\$221 million	63
	Eggs	\$902 million	\$733 million	(\$169 million)	(19)
	Milk and derivates	\$1,270 million	\$1,756 million	\$486 million	38
	Fish	\$397 million	\$360 million	(\$37 million)	(10)
High Income (Top 30% in household income)	Meat (beef, pork, chicken)	\$43,989 million	\$38,909 million	(\$5,080 million)	(12)
	Fresh fruits	\$2,294 million	\$2,740 million	\$446 million	20
	Eggs	\$1,578 million	\$895 million	(\$683 million)	(43)
	Milk and derivates	\$6,049 million	\$6,767 million	\$718 million	12
	Fish	\$1,055 million	\$1,361 million	\$306 million	29

Source: INEGI

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2. The new global environment: key trends

3. A new vision for NAFTA

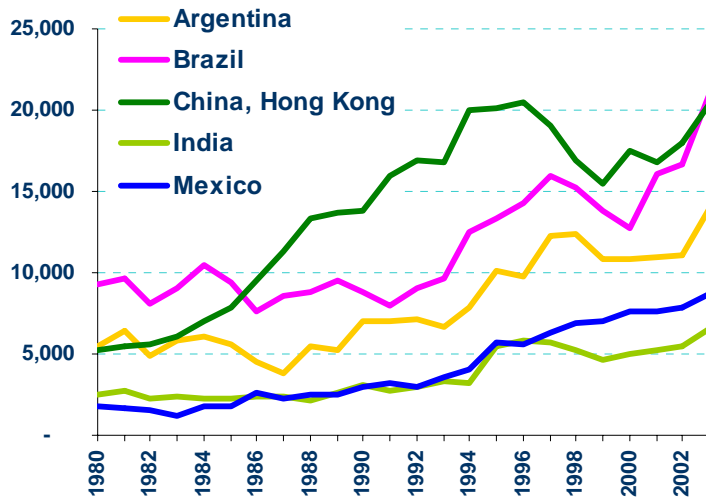
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Since 1994, the global environment for agribusiness has changed

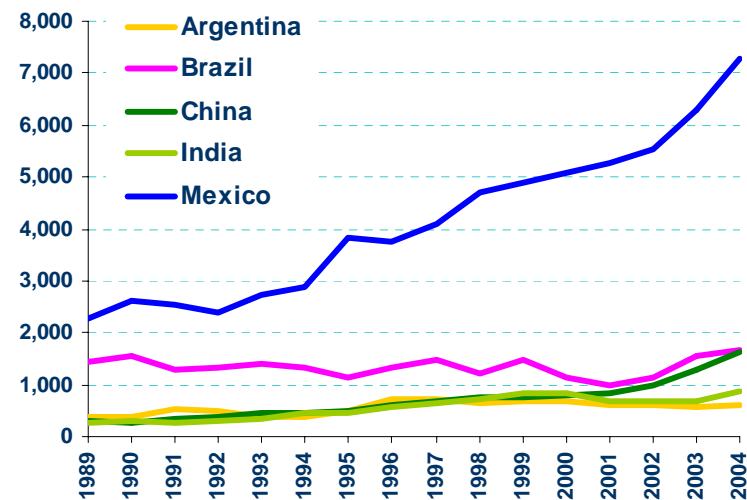
New players have emerged, not only as consumers, but also as exporters

Agricultural total exports
Million dollars



Source: FIRA based on FAO statistics.

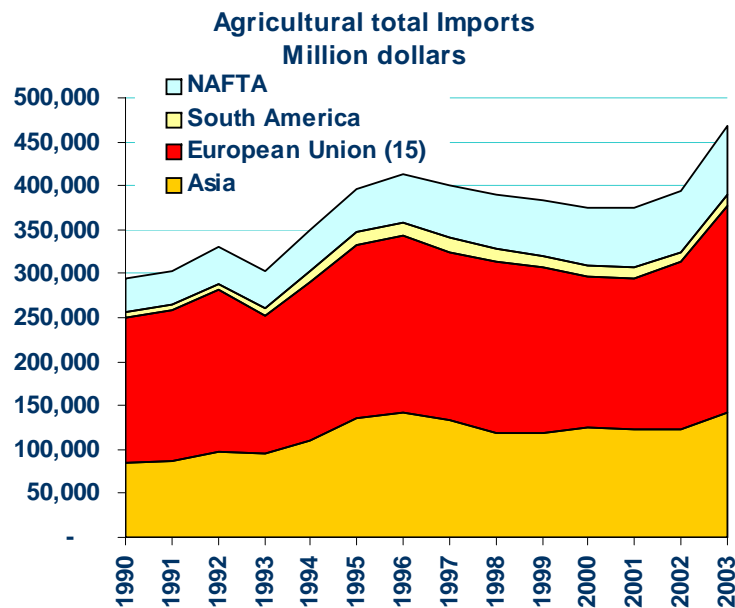
Agricultural total exports to US
Million dollars



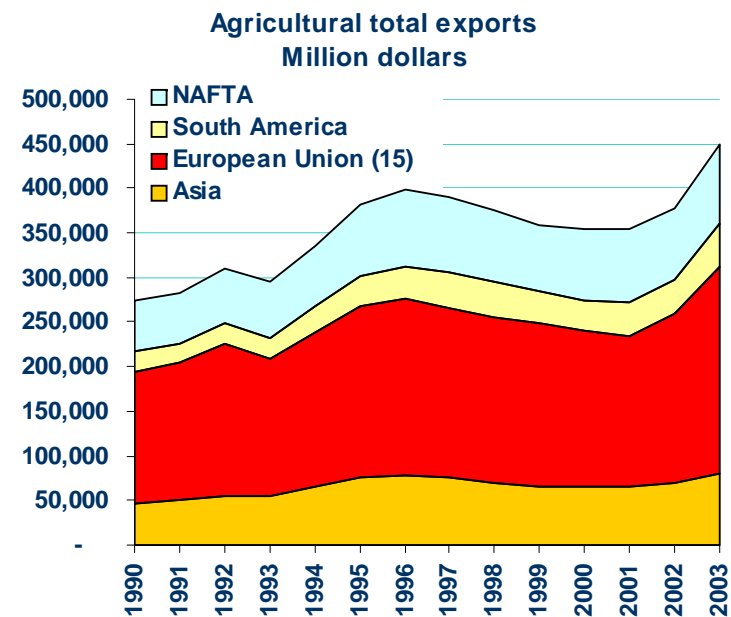
Source: FIRA based on FAS-BICO statistics.

Traditional view of trade based on comparative advantages of countries has shifted to global sourcing

- Agribusiness and food companies have gone global, not only for markets, but also for sourcing
- Food chain is becoming global
- New environment, competition has started to shift from producers at country level to a global value-chain
- NAFTA partners have not widely adjusted to the new paradigm



Source: FIRA based on FAO statistics.



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In addition to enhanced trade, NAFTA offers a framework for the new environment

NAFTA



- We should capture the opportunity to develop:
 - *NAFTA products*
 - *NAFTA agribusiness and food companies*
- A case study is valuable to illustrate. . .

The poultry industry has taken steps towards a more integrated market and NAFTA products

- In 2002, the NAFTA Egg & Poultry Partnership (NEPP) was created by industry participants
- NEPP objectives are:

- ✓ Consultation mechanism for common problems
- ✓ Forum to analyze opportunities
- ✓ Working groups created to solve issues regarding consumption, trade barriers, sanitary policies and trade disputes

The institutional mechanism created has already yielded results

- NAFTA markets complement each other
- There is an opportunity to feed the world NAFTA chicken

Elements of competitiveness

Genetics
US/Canada

Feed
US/Canada

Labor
Mexico

Gateway to
the world
Mexico

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Complementary actions are needed to take NAFTA to the next level

- Develop a North American Security agreement to jointly address biosecurity issues in food chain without compromising trade
- Better coordination of public policies towards agriculture, with a view of developing a NAFTA-wide agricultural policy
- Convergence in sanitary and food safety policies aiming to build a NAFTA sanitary belt
- Strengthening of NAFTA institutions, particularly those related to conflict resolution
- Promotion of industry level partnerships (i.e. NEPP)
- Matching funds for NAFTA product branding
- Encourage regional R&D and innovation (functional foods, etc)

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NAFTA offers an adequate framework for higher integration and competitiveness in the new global environment

- NAFTA has brought increased trade within the region
- Globalization of the food system bring new opportunities, as well as new challenges
- NAFTA benefits are reaching a plateau; moving to a higher level of integration is needed to fit the new paradigm
- There is an unique opportunity to develop NAFTA products to successfully compete in world markets
- A higher degree of cooperation and coordination of public policies among the NAFTA countries is needed to capture that opportunity
- Initial steps have been taken by industry; official encouragement and backing is desirable