



The Future of North American Market Integration

A Mexican Perspective

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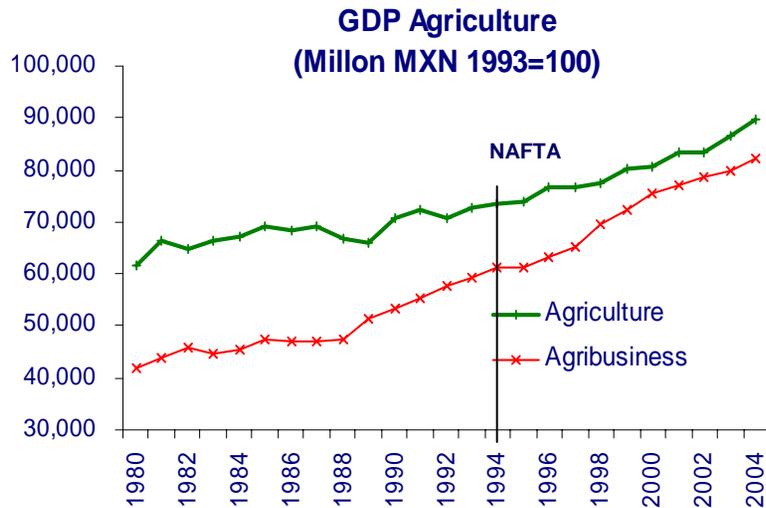
Agenda

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

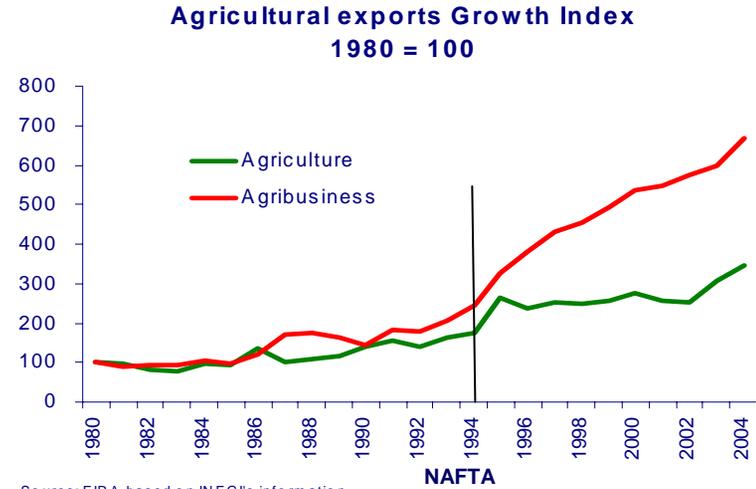
Several outputs were expected in the agribusiness sector as a result of NAFTA

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

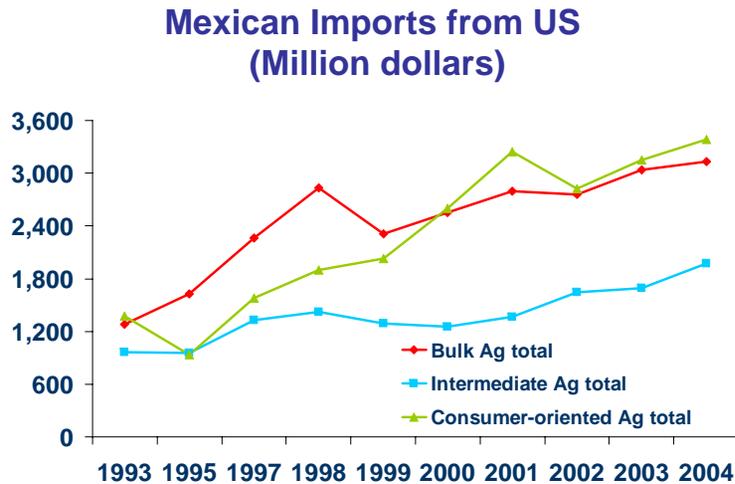
Figures show that many of the expected results have materialized



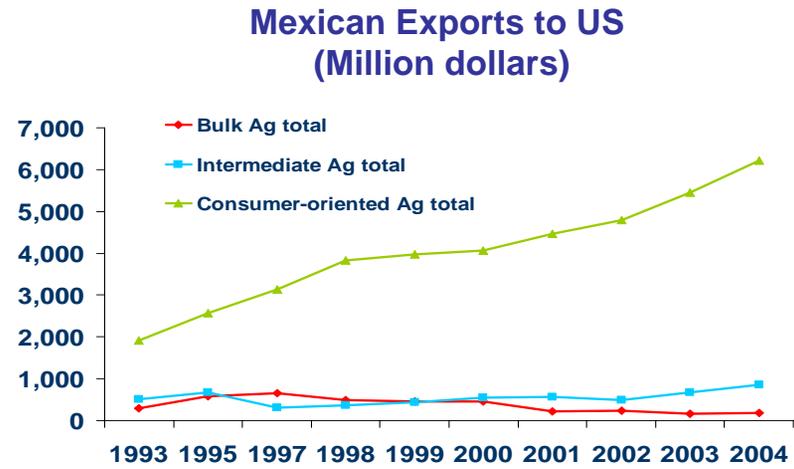
Source: FIRA based on INEGI's information



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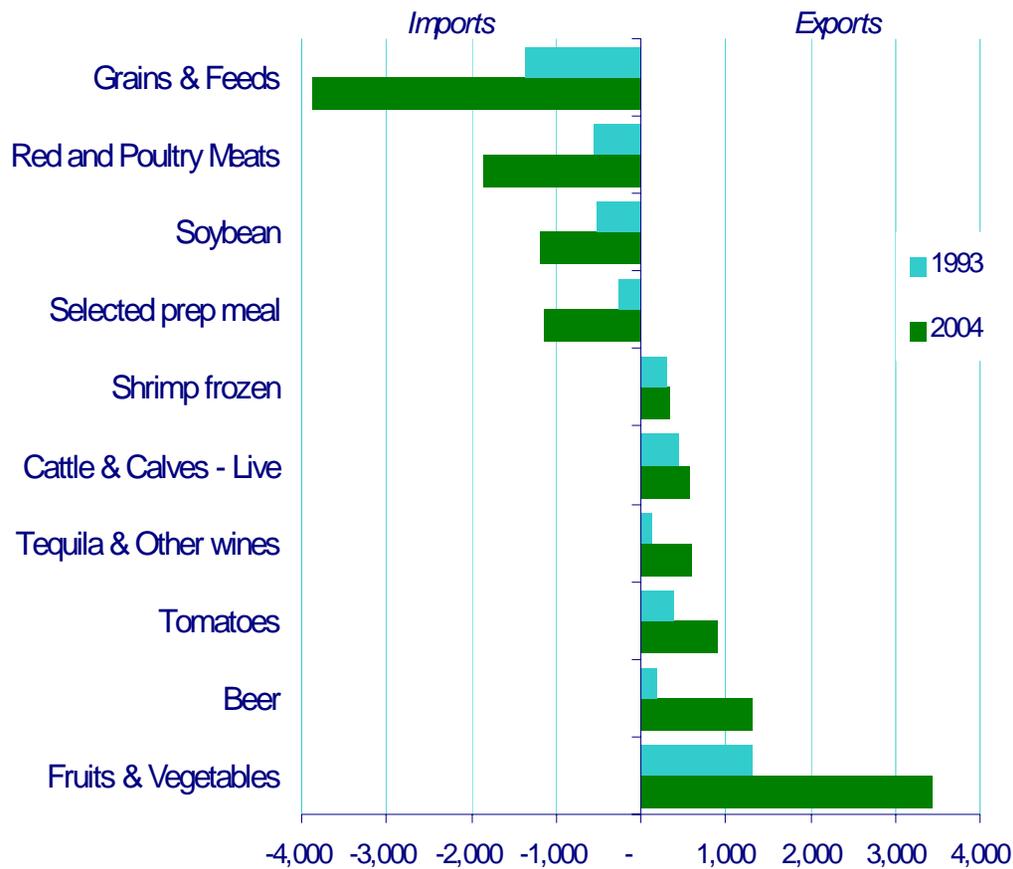
Source: US Bureau of the Census Trade Data. BICO Reports



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Fruits, vegetables and prepared foods and beverages explained much of the increased exports

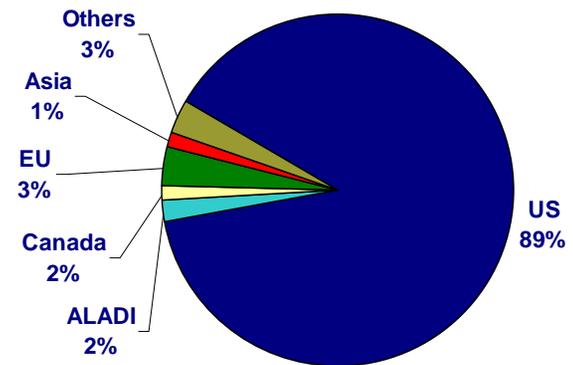
Mexican Agricultural Imports & Exports
Million dollars



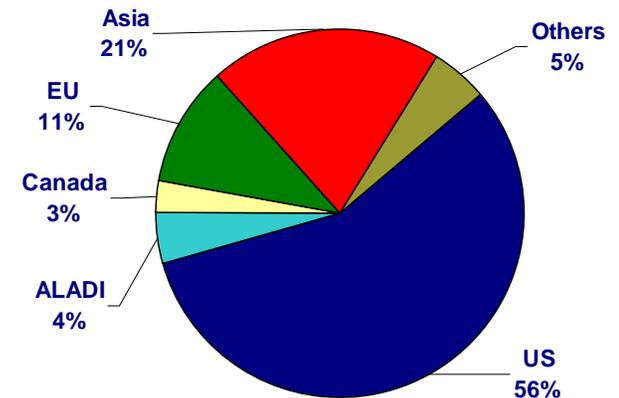
Source: FIRA based on INEGI's information

Mexican trade by region

Exports 2004



Imports 2004



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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1. Main impacts of NAFTA in Mexican agribusiness sector

2. The new global environment: key trends

3. Desarrollo de Mercados Financieros Rurales

4. Resultados operativos

5. Retos hacia adelante

Since 1994, the global environment for agribusiness has changed

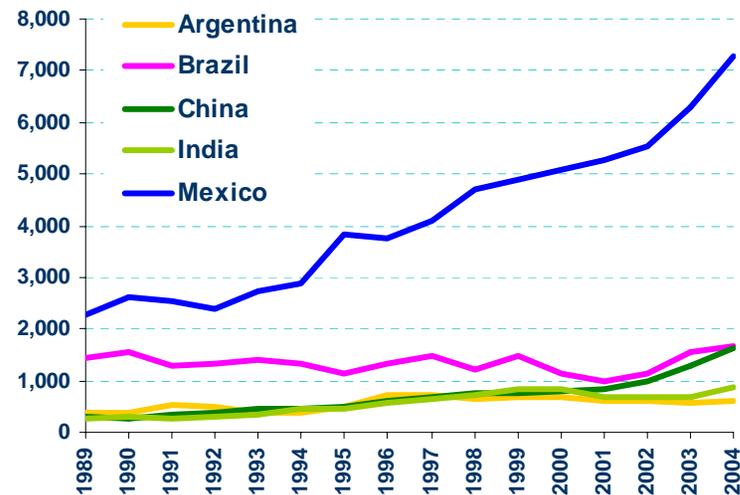
New players have emerged, not only as consumers, but also as exporters

Agricultural total exports
Million dollars



Source: FIRA based on FAO statistics.

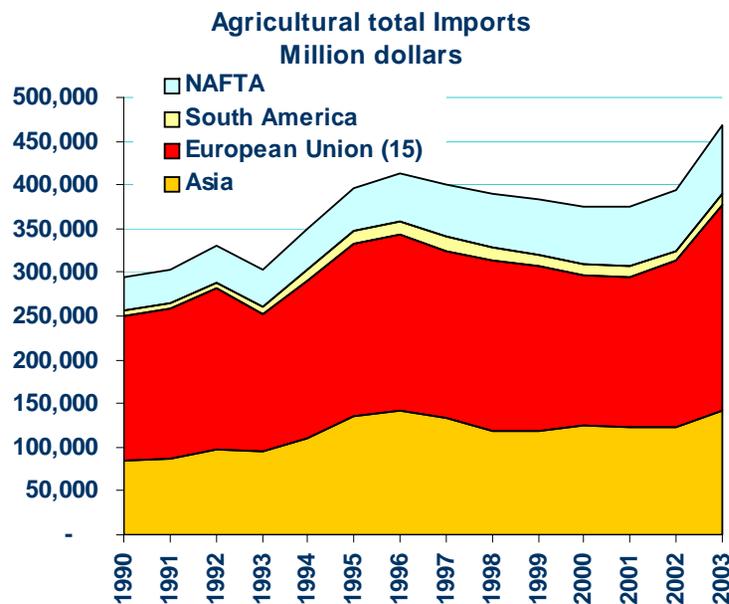
Agricultural total exports to US
Million dollars



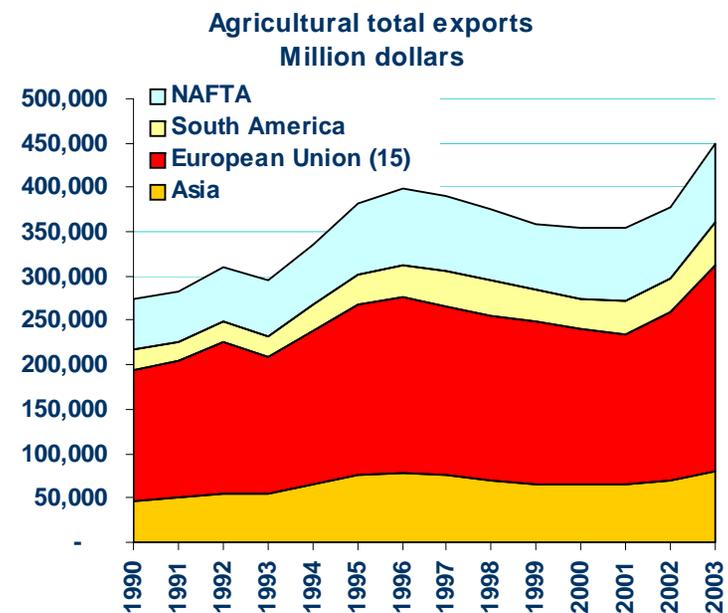
Source: FIRA based on FAS-BICO statistics.

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 global value-nets
- 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 for analysis of opportunities
- ✓ Task groups creation for solving issues on consumption, trade barriers, sanitary policies and trade disputes

The institutional mechanism created has already lent 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

Land value
Mexico

Gateway to
the world
Mexico

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Complementary actions are needed to bring NAFTA to the next level

- Develop a North American Security agreement to jointly address biosecurity issues in food chain without compromising trade
- Better coordination in public policies toward agriculture, with a view of developing a NAFTA 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 (ie 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