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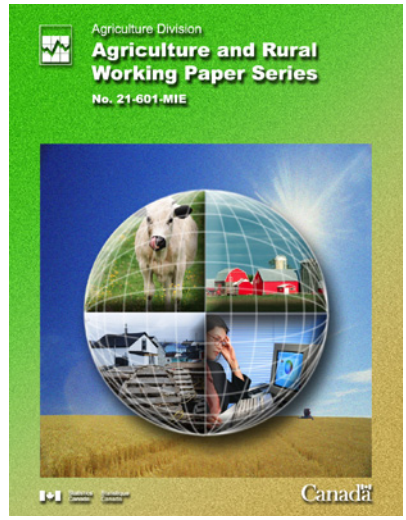


# Canada – Mexico agricultural economies and trade under closer North American relations

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***Note of appreciation***: Canada owes the success of its statistical system to a longstanding partnership between Statistics Canada and the citizens, businesses and governments of Canada. Accurate and timely statistical information could not be produced without their continued co-operation and good will.

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## Abstract

Continued expansion of economic and security relations between Canada, United States, and Mexico are expected in the years to come. The United States is by far the largest export market for both Canada and Mexico with each nation exporting over 80% of their products to this large economy. However, trade between Canada and Mexico has also grown significantly since the implementation of the North American Free Trade Agreement (NAFTA) a decade ago. The two-way trade between Canada and Mexico has more than doubled from Cdn $6.5 billion in 1995 to Cdn $15.1 billion in 2002, according to official Statistics Canada trade statistics.

A recent merchandise trade reconciliation study undertaken between Statistics Canada and a Mexican Working Group on Foreign Trade Statistics has determined that the two-way trade was closer to Cdn $19 billion in 2001. This result ranks Canada as Mexico's second most important export market and ranks Mexico as Canada's fourth most important export market in 2001. In comparison, Mexico was ranked as Canada's 15th most important export market in 1995.

This research study provides an overview of the trading relationship between Canada and Mexico with particular emphasis on agricultural trade. Approximately one-fifth of Canadian exports to Mexico are agricultural goods. Therefore, it is important to both countries that awareness is generated as to the nature of our bi-lateral trade and the changing socio-economic conditions that will enhance or hinder our trading relationship.


## Introduction

In North America, the Canada – US – Mexico economies have become increasingly integrated and the pace of integration has rapidly advanced over the past decade under the North American Free Trade Agreement (NAFTA). Intra-NAFTA exports were 56% of total NAFTA exports in 2000, up from 34% during the early 1980s (O'Neill, 2002). For Canada, the export share of GDP has more than doubled over the past 40 years from 18% in 1961 to 43% in 2001.

Global agricultural protectionism policies have restricted agricultural trade growth. This is evidenced by the modest 1.8% annual growth of international agricultural trade during 1985 to 1994, compared to 5.8% growth for manufactured products over the same period. Although countries committed to reduce agricultural tariffs, it is estimated that global average agricultural tariffs in 1999 remained high at 62%. North American average tariff rates in 1999 were below the global average with Canada (24%), US (12%) and Mexico (43%) (The International Agricultural Trade Research Consortium, 2001).

The NAFTA was the first trade agreement to unite a developing country with two developed countries in a regional trading block. While the agri-food sector is included under NAFTA, the provisions consist of three bilateral agreements (Canada – US, US – Mexico, and Canada – Mexico). Therefore, differences will arise in market access provisions within the three trading partners depending on each bilateral agreement.

A significant amount of literature on NAFTA focuses on trade between Canada and the United States or between the United States and Mexico. However, there seems to be a knowledge gap on the trade relationship between Canada and Mexico. The purpose of this paper is to focus on trade relations between Canada and Mexico with a particular emphasis on agricultural trade.

## Changing conditions in Mexico

Mexico significantly developed as a nation in the 1990s. Its democratic political structure, positive economic growth, large population, and openness to the world marketplace have placed Mexico as the tenth largest economy in the world (based on 2000 GDP).

Mexico's strategic trade liberalization policy initiated a decade ago has attempted to position the country as a global trading hub. Its wide network of free trade agreements provides Mexico with preferential access to more than thirty countries.

Over the past ten years, Mexico's rural sector has been subject to sweeping reforms. This has led to the emergence of a largely liberalized, market-oriented, and private-sector-driven rural economy. The Mexican government has pursued reforms in prices, markets and trade liberalization for many agricultural commodities. In addition, Mexico government reforms in public investment, privatization, and fiscal transfers are influencing the agri-food industry. The inclusion of the agricultural sector in international trade agreements has created the basis for exposure of producers to global economic forces and exposure of consumers to agri-food products at world prices.

The land tenure system in Mexico has been a major focus of policy reform in their agri-food industry over the past decade. After a long history of land redistribution, the 1992 Constitutional amendment and the accompanying change to the regulatory framework permitted ejido land (collective ownership) to be transferred or sold into private ownership for the first time.

Mexico's reforms of the past decade have established a policy framework to implement efficiency gains in agriculture. However, the performance of the industry lagged during most of the 1990s, agricultural growth stagnated, and rural poverty increased.

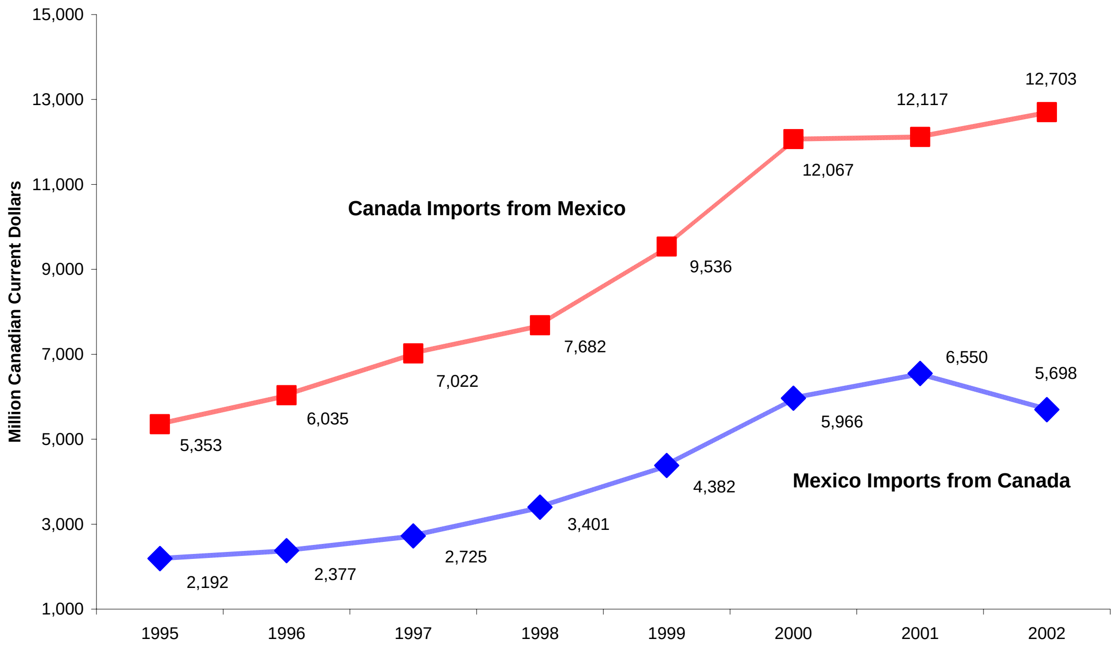
There are many reasons to explain the response of the industry to these sectoral reforms. Primarily, the reforms did not address the extreme heterogeneity of the rural sector and its regional variations. For example, the market-driven reforms were not likely to have the same impact on small-scale producers of domestically consumed and subsistence commodities as on commercial agriculture. Overall, the reforms did not resolve decades of structural and cultural limitations in the capacity of small and poor farmers to access markets. The Mexican government believes that if a sound macroeconomic framework can be maintained, the agricultural industry is poised for sustainable enhancement of productivity and performance.

## Mexico is Canada's priority market for agricultural trade development

Mexico is a priority market for agricultural trade development by many of Canada's provinces. It is important to note that although the United States is the most important market for Canadian agri-food exports, exporters are looking "beyond" the US to increase trade directly with Mexico.

Figure 1 illustrates the value of total merchandise trade between Canada and Mexico since the introduction of the NAFTA in 1994. In 1995, the total trade between the two countries was approximately Cdn $7.5 billion with Mexico enjoying a trade surplus of Cdn $3.2 billion. By 2002, preliminary trade figures indicate that the total trade between the countries has grown to Cdn $18.4 billion with Mexico's trade surplus with Canada growing to Cdn $7.0 billion. Approximately half of the decline in Mexico's imports from Canada in 2002 are a result of lower imports of agri-food products (the 2002 drought in Western Canada would have had an impact on Mexico's imports from Canada).

**Figure 1: Canada - Mexico Total Trade**




Note: Based on reconciled Canada - Mexico data
***Sources*** : Statistics Canada, National Institute of Statistics, Geography and Informatics (INEGI)

## Mexico is fourth largest supplier of imports to Canada

In 2002, Mexico was the fourth largest supplier of imports to Canada following the United States, China and Japan.[1] Mexico's market share of Canadian imports has grown from 2.4% in 1995 to 3.6% in 2002 (Table 1). Therefore, the NAFTA appears to have assisted in opening trade relations between the two countries.

One of the largest competitors for Mexico in the Canadian market is China. China's market share of Canadian imports has more than doubled, from 2.1% in 1995 to 4.6% in 2002.

Canada's top 15 imports from Mexico are outlined in Table 2. Vehicles and machinery made up 72% of Canadian imports from Mexico in 2002 and these imports have more than doubled since 1995. Although vegetables, edible fruit and nuts, and beverages imported from Mexico ranked in the top 15 of all Canadian imports, agricultural imports from Mexico were only four percent of total imports in 2002.

While vehicles and machinery are the largest Canadian merchandise exports to Mexico, Canadian agricultural exports are significant at 21% (Cdn $1.2 billion) of the total exports. Canadian meat exports to Mexico have grown from 5 million dollars in 1995 to over Cdn $300 million in 2001, making it the third largest export. Canadian exports of cereal grains, oilseeds, seeds, and fruit are also in the top five exports to Mexico. Other major Canadian merchandise exports to Mexico include aluminum, forestry products (paper, paperboard, woodpulp), iron and steel, chemical products, dairy and eggs, furniture and bedding, and plastic.

Another "agricultural trade" relationship involves the migration of seasonal agricultural workers from Mexico to Canada each year. In 1974, a Memorandum of Understanding was signed between the governments of Canada and Mexico to introduce the Mexican Seasonal Agricultural Workers Program. The program ensures that immigration laws are complied with, skilled workers are properly selected, and workers' rights are protected.

Currently, over 7,000 Mexican workers (including about 165 women) are placed on farms in Ontario, Quebec, Manitoba and Alberta each year. The workers come from 20 states in Mexico. It is estimated the revenue earned by the workers supports 50,000 family members in Mexico with earnings of $50 million annually. To date, 12,000 Mexicans have worked in Canada and the expectation is to increase the flow of Mexican workers.

[1] All import and export figures provided in this paper refer to merchandise trade.

**Table 1: Canadian imports by country, 1995 to 2002**

| | Rank in 2002 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | ( million Canadian dollars ) | | | | |
| United States | 1 | 150,682 | 156,953 | 184,414 | 203,578 | 215,575 | 229,646 | 218,296 | 218,163 |
| China | 2 | 4,639 | 4,931 | 6,341 | 7,651 | 8,951 | 11,289 | 12,722 | 15,976 |
| Japan | 3 | 12,094 | 10,439 | 12,551 | 14,015 | 15,039 | 16,611 | 14,635 | 15,406 |
| **Mexico** | **4** | **5,353** | **6,035** | **7,022** | **7,682** | **9,536** | **12,067** | **12,117** | **12,703** |
| United Kingdom | 5 | 5,476 | 5,908 | 6,499 | 6,314 | 8,107 | 13,029 | 11,714 | 9,726 |
| Others | | 47,309 | 48,300 | 56,120 | 59,147 | 63,201 | 74,220 | 73,592 | 76,471 |
| TOTAL | | 225,553 | 232,566 | 272,946 | 298,386 | 320,409 | 356,862 | 343,076 | 348,445 |
| | | | | | ( % ) | | | | |
| United States | 1 | 66.8 | 67.5 | 67.6 | 68.2 | 67.3 | 64.4 | 63.6 | 62.6 |
| China | 2 | 2.1 | 2.1 | 2.3 | 2.6 | 2.8 | 3.2 | 3.7 | 4.6 |
| Japan | 3 | 5.4 | 4.5 | 4.6 | 4.7 | 4.7 | 4.7 | 4.3 | 4.4 |
| **Mexico** | **4** | **2.4** | **2.6** | **2.6** | **2.6** | **3.0** | **3.4** | **3.5** | **3.6** |
| United Kingdom | 5 | 2.4 | 2.5 | 2.4 | 2.1 | 2.5 | 3.7 | 3.4 | 2.8 |
| Others | | 21.0 | 20.8 | 20.6 | 19.8 | 19.7 | 20.8 | 21.5 | 21.9 |
| TOTAL | | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

***Source*** : Statistics Canada

**Table 2: Canada's top 15 imports from Mexico**

| Description | 1995 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| | (million Canadian dollars, current $) | | | |
| Vehicles (not railway) | 1,977 | 3,507 | 3,644 | 3,680 |
| Electrical machinery | 1,211 | 3,582 | 3,169 | 3,412 |
| Machinery | 802 | 2,085 | 2,139 | 2,009 |
| Furniture & bedding | 245 | 496 | 538 | 739 |
| Optic, medical instruments | 65 | 217 | 250 | 338 |
| Mineral fuel & oil | 111 | 397 | 431 | 275 |
| **Vegetables** | 98 | 122 | 151 | 203 |
| Woven apparel | 19 | 116 | 180 | 191 |
| Iron & steel products | 34 | 152 | 157 | 160 |
| Toys & sports equipment | 29 | 45 | 85 | 133 |
| Miscellaneous art | 32 | 106 | 99 | 132 |
| **Edible fruit & nuts** | 75 | 113 | 122 | 122 |
| **Beverages** | 31 | 82 | 102 | 112 |
| Knit apparel | 15 | 85 | 101 | 111 |
| Plastic | 24 | 63 | 73 | 84 |
| Total merchandise imports | 5,353 | 12,067 | 12,117 | 12,703 |
| Total agricultural imports | 297 | 403 | 447 | 515 |
| % Agricultural imports | 6 % | 3 % | 4 % | 4 % |

***Source***: Statistics Canada, World Trade Atlas – Canadian Edition

## Canada – Mexico agri-food trade (using reconciled data)

Merchandise trade statistics reported by Canada and Mexico are often not consistent for two major reasons:

(i) country misallocation (trans-shipments of product through the United States on route either to the Canadian or Mexican market is often accounted for as a trade with the US rather than as trade between Canada and Mexico). This phenomenon understates Canada's exports to Mexico while overstating Canada's exports to the US without affecting Canada's total exports. It also understates Mexico's exports to Canada, while overstating Mexico's exports to the US.

(ii) export under-coverage (where exports to Mexico are not reported to the Canada Customs and Revenue Agency and are not accounted for in Canada's exports to other destinations). This phenomenon understates Canada's exports to Mexico and total exports. It also understates Mexico's exports to Canada and Mexico's total exports.

The impact of these two issues is that import data of the receiving country are often higher than the export data of the source country.

Over the past five years, Statistics Canada has been cooperating with the Mexican Working

Group on Foreign Trade Statistics[2], US Customs Service and the U.S. Bureau of the Census in an exchange of data in order to reconcile the merchandise trade data between the three countries. In 2001, for example, the discrepancies between Canadian and Mexican trade statistics were significant. Mexico's import statistics exceeded Canada's exports by Cdn $4.2 billion. Similarly, Canadian reported imports from Mexico were greater than Mexican reported exports by Cdn $7.4 billion in 2001.

A question this paper addresses is: What is the reconciliation of the Canada – Mexico merchandise trade for agri-food products? Taking the same reconciliation data set for 2001, an analysis was undertaken to identify and reconcile the agri-food trade data component of overall merchandise trade. The definition of agri-food products was provided by Agriculture and Agri-food Canada which is the Harmonized System (HS) Codes as defined by the World Trade Organization. Please refer to footnote #1 in Table 3 for a full listing of the HS Codes.

Table 3 summarizes the reconciliation of agri-food trade between Canada and Mexico for 2001.[3] Statistics Canada merchandise trade data indicates that Canada exported Cdn $939.9 million to the Mexico market whereas Mexico reports their imports from Canada totaled Cdn $1,217.2 million (a discrepancy of 30% of the Canadian export figures). For imports of Mexican goods into Canada, the discrepancy was even larger. Canada reports that Cdn $441.7 million of agri-food products were imported in 2001 whereas the Mexican government reports that only Cdn $148.6 million was exported to Canada (a discrepancy of 197% of the Mexican export figures).

Therefore,

(i) using the Statistics Canada published merchandise export data, the estimated 2001 agriculture and agri-food trade surplus for Canada would be Cdn $498.2 million;

(ii) using the reconciled data, the estimated 2001 agriculture and agri-food trade surplus for Canada increases to Cdn $775.5 million.

The major agri-food imports by Mexico from Canada in 2001 included: meat (30.5%), cereal grains (19.8%), other grains and oilseeds (22.0%), and dairy products (8.6%). The major agri-food imports by Canada from Mexico included: vegetables (34.0%), edible fruits and nuts (27.5%), and beverages (23.0%).

## Mexico large importer of agri-food products

Mexico is a large importer of agri-food products. In 2002, Mexico's agri-food imports totaled US $11.4 billion (Cdn $17.7 billion) with the dominant suppliers being the United States (75.6% market share) and Canada (6.1% market share).[4] Note that Canada's market share is understated (and the US market share overstated) because an estimated 30% of Canadian exports to Mexico are either accounted for in the statistics as exports to the US even though they are transshipped into Mexico or are under-reported. (Refer to previous section for a discussion on the reconciliation of Canadian agri-food exports to

[2] The Mexican Working Group on Foreign Trade Statistics includes the Secretariat of Treasury and Public Credit (SHCP), The Bank of Mexico, the Ministry of the Economy (SE), and the National Institute of Statistics, Geography, and Informatics (INEGI)

[3] The reconciled figures quoted in this paper will not be the same as the officially published data.

[4] The countries supplying the agri-food market of Mexico after the USA and Canada (in order of importance) include: Chile, New Zealand, Australia, Spain, France, Germany, Brazil, and the Netherlands with market shares ranging from 2.4% to 0.8%.

Mexico). It is estimated that Canada's market share in Mexico's agri-food imports is closer to eight percent.

The top 15 agri-food imports by Mexico in 2001 are outlined in Table 4. Mexico's imports of agri-food products from Canada totaled approximately Cdn$ 1.2 billion in 2001. Therefore, there is a large opportunity to continue to grow Canada's exports into the Mexico market (and vice versa).

## Mexico eliminated many agri-food tariffs on January 1, 2003

On December 31, 2002 the Government of Mexico announced the implementation of tariff elimination for 2003 under NAFTA. The announcement was published by the Ministry of the Economy (SE) in the Official Gazette and states that according to the provisions of NAFTA, as of January 1, 2003, all the Canadian and U.S. agri-food products have duty free access in the Mexican market, except for the specified cases as follows:

i) In the case of Canada, some products were excluded from any tariff preferences under NAFTA and will be subject to the Most Favoured Nation (MFN) duty that Mexico applies to all World Trade Organization members. These products include:
   - live poultry
   - poultry meat and edible offal (except frozen whole duck, fresh or chilled duck livers, duck ofie gras, and frozen duck cuts and offal other than livers, which have duty free access as of January 1, 2003)
   - poultry fat
   - birds eggs
   - prepared poultry meat or offal
   - food preparations based on poultry meat or offal
   - egg preparations
   - egg albumin
   - milk and cream
   - buttermilk and yoghurt
   - butter and other fats and oils derived from milk
   - cheese and curd
   - food preparations based on dairy products
   - ice cream
   - animal feed preparations based on dairy products
   - casein and caseinates
   - cane or beet sugar
   - invert sugar and other sugar syrups
   - chocolate containing 90% or more by weight of sugar

**Table 3: Canada - Mexico agri-food trade , 2001** (reconciliation of data)

| HS Code (1) | Description | Canada agri-food exports to Mexico (2) | Mexico agri-food imports from Canada (3) | Mexico agri-food imports from Canada (3) | Canada agri-food imports from Mexico (2) | Mexico agri-food exports to Canada (3) | Canada agri-food imports from Mexico (2) |
|---|---|---|---|---|---|---|---|
| | | (million Canadian dollars) | | (%) | (million Canadian dollars) | | (%) |
| 01 | Live animals | 2.1 | 41.0 | 3.4 | 0.01 | 0.0 | 0.0 |
| 02 | Meat and edible meat offal | 272.2 | 370.6 | 30.5 | 0.0 | 1.5 | 0.0 |
| 04 | Dairy produce; bird's eggs; natural honey; edible products of animal origin, not elsewhere specified or included | 80.9 | 104.4 | 8.6 | 0.01 | 0.1 | 0.0 |
| 05 | Products of animal origin, not elsewhere specified or included | 5.0 | 13.3 | 1.1 | 0.1 | 0.0 | 0.0 |
| 06 | Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage | 0.1 | 3.1 | 0.3 | 6.3 | 2.6 | 1.4 |
| 07 | Edible vegetables and certain roots and tubers | 19.6 | 30.2 | 2.5 | 150.2 | 22.0 | 34.0 |
| 08 | Edible fruit and nuts; peel of citrus fruit or melons | 3.5 | 7.2 | 0.6 | 121.5 | 37.5 | 27.5 |
| 09 | Coffee, tea, maté and spices | 0.0 | 1.0 | 0.1 | 14.5 | 1.6 | 3.3 |
| 10 | Cereals | 248.3 | 241.1 | 19.8 | 0.1 | 0.0 | 0.0 |
| 11 | Products of the milling industry; malt; starches; inulin; wheat gluten | 26.5 | 29.5 | 2.4 | 0.1 | 0.0 | 0.0 |
| 12 | Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder | 259.7 | 268.5 | 22.0 | 3.6 | 0.8 | 0.8 |
| 13 | Lac; gums; resins and other vegetable saps and extracts | 0.0 | 3.9 | 0.3 | 0.2 | 0.0 | 0.0 |
| 14 | Vegetable plaiting materials; vegetable products not elsewhere specified or included | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.1 |
| 15 | Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes | 0.9 | 9.7 | 0.8 | 0.5 | 0.1 | 0.1 |
| 16 | Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates | 1.6 | 3.4 | 0.3 | 0.0 | 0.0 | 0.0 |
| 17 | Sugars and sugar confectionery | 5.3 | 10.8 | 0.9 | 16.2 | 7.2 | 3.7 |
| 18 | Cocoa and cocoa preparations | 1.5 | 16.2 | 1.3 | 1.3 | 0.7 | 0.3 |
| 19 | Preparations of cereals, flour, starch or milk; pastrycooks' products | 0.0 | 11.1 | 0.9 | 3.0 | 2.3 | 0.7 |
| 20 | Preparations of vegetables, fruit, nuts or other parts of plants | 2.5 | 18.8 | 1.5 | 8.1 | 2.9 | 1.8 |
| 21 | Miscellaneous edible preparations | 4.5 | 14.9 | 1.2 | 12.2 | 6.9 | 2.8 |
| 22 | Beverages, spirits and vinegar | 0.5 | 3.9 | 0.3 | 101.5 | 56.3 | 23.0 |
| 23 | Residues and waste from the food industries, prepared animal fodder | 4.1 | 9.0 | 0.7 | 1.2 | 0.2 | 0.3 |
| 24 | Tobacco and manufactured tobacco substitutes | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 |
| 29 | Organic chemicals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 33 | Essential oils and resinoids; perfumery, cosmetic or toilet preparations | 0.0 | 1.4 | 0.1 | 0.5 | 0.2 | 0.1 |
| 35 | Albuminoidal substances; modified starches; glues; enzymes | 0.6 | 0.9 | 0.1 | 0.0 | 5.6 | 0.0 |
| 38 | Miscellaneous chemical products | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 41 | Raw hides and skins (other than furskins) and leather | 0.5 | 3.2 | 0.3 | 0.01 | 0.0 | 0.0 |
| 43 | Furskins and artificial fur; manufactures thereof | 0.0 | 0.01 | 0.0 | 0.0 | 0.0 | 0.0 |
| 52 | Cotton | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| **Total** | | **939.9** | **1,217.2** | **100** | **441.7** | **148.6** | **100.0** |
| **Difference as % of export data of the respective country** | | **29.5%** | | | **197.2%** | | |

(1) Harmonized System (HS) Codes contained in the agri-food definition as used by Agriculture & Agri-food Canada and matching the agri-food definition used by the World Trade Organization: HS groups including all sub codes: 01, 02, 04, 05, 06, 07, 08, 09, 10, 11, 12, 13, 14, 15, 1601, 1602, 17, 18, 19, 20, 21, 22, 23, 24, 290543, 290544, 3301, 3501, 3502, 3503, 3505, 380910, 382360, 4101, 4102, 4103, 4301, 5001, 5002, 5003, 5101, 5102, 5103, 5201, 5202, 5203, 5301, 5302.
(2) Statistics Canada
(3) National Institute of Statistics, Geography and Informatics (INEGI)

## Table 4: Mexico agri-food imports (top 15), 2001

| Mexico agri-food imports | Imports from all sources | Imports from Canada | Canadian market share |
|---|---|---|---|
| | (million Cdn $) | (million Cdn $) | (%) |
| | | | |
| Meat & edible meat offal | 2,917 | 374 | 12.8 |
| Cereals | 2,678 | 241 | 9.0 |
| Oilseeds & seeds for sowing | 2,103 | 269 | 12.8 |
| Dairy products, eggs, honey | 1,257 | 104 | 8.3 |
| Food preparations | 882 | 30 | 3.4 |
| Fruits & nuts (fresh / frozen) | 801 | 7 | 0.9 |
| Cotton (not carded or combed) | 797 | 0 | 0 |
| Animal feeds | 625 | 9 | 1.4 |
| Fats & oils (animal / vegetable) | 606 | 10 | 1.7 |
| Beverages & spirits | 524 | 4 | 0.8 |
| Cereal preparations & pasta | 516 | 15 | 2.9 |
| Preparations of vegetables & fruit | 448 | 23 | 5.1 |
| Milling products, malt & starch | 349 | 30 | 8.6 |
| Live animals | 338 | 41 | 12.1 |
| Vegetables (fresh / frozen) | 316 | 30 | 9.5 |
| Note: Total imports are converted from US to Canadian dollars using a 2001 monthly average exchange rate equal to 1.55. | | | |

***Source***: World Trade Atlas – Canadian Edition

ii) Some agri-food products from Canada and the US will continue to have access to the Mexican market under Tariff Rate Quotas (TRQ's) that will be completely eliminated on January 1, 2008. For example, Mexico will allow 1,957 tonnes of beans to be imported from Canada at zero tariff but all bean imports above this level will be charged a tariff of 58.7 % (Table 5).

**Table 5: Agri-food products subject to Mexican tariff rate quotas and duties (until January 1, 2008)**

| Country | Product | TRQ's (2003) | In-quota tariff (2003) | Out of quota tariff (2003) |
|---|---|---|---|---|
| US | Skim milk powder | 52,191 tonnes | 0% | 58.7% |
| US | Beans | 65,239 tonnes | 0% | 58.7% |
| Canada | Beans | 1,957 tonnes | 0% | 58.7% |
| US | Maize | 3,261,933 tonnes | 0% | 90.8% |
| Canada | Maize | 1,305 tonnes | 0% | 90.8% |
| US | Frozen orange juice | 734,670 litres | 4.62 US c/l | 7.86 US c/l |

Note: c/l = cents per litre
***Source***: Ministry of the Economy, Mexico

iii) Some agri-food products are not subject to Tariff Rate Quotas (TRQ's) but will have import duties applied until duty free access is granted on January 1, 2008. For Canada, these products include tuna fish, skipjack, and Atlantic bonito (Table 6).

**Table 6: Agri-food products subject to Mexican import duties (until Jan. 1, 2008)**

| Country | Product | Import duty (2003) |
|---|---|---|
| US and Canada | Tuna fish, skipjack, atlantic bonito (prepared or preserved) | 6.6% |
| US | Orange juice (concentration <= 1.5) | 1.76 US c/l |
| US | Orange juice (concentration > 1.5) | 3.08 US c/l |

Note: c/l = cents per litre
***Source***: Ministry of the Economy, Mexico

iv) For imports from the US of cane or beet sugar, invert sugar, sugar syrups and chocolate containing 90% or more by weight of sugar, Mexico will apply 80% of the MFN duty in force at the time of importation and will grant duty free access to these products as of January 1, 2008.

v) Canadian and US agri-food products that gained duty free access into Mexico as of January 1, 2003 are outlined in Table 7.

**Table 7: Tariff & quota-free agri-food products into the Mexico market (effective Jan. 1, 2003)**

| | |
|---|---|
| Animal fats | Pig fat |
| Apples | Pork, fresh or frozen |
| Barley & malt | Pork, salted |
| Cereal flours & starch | Potatoes, cooked, cut/sliced, (frozen) |
| Chocolate | Potatoes, fresh or chilled |
| Coconut | Potatoes, prepared (frozen French fries) |
| Coffee (extracts & concentrates) | Prepared food containing cereals |
| Coffee (roasted) | Prepared meat (except poultry) |
| Confectionery products | Prepared peanuts |
| Cotton | Prepared pineapples |
| Duck cuts & offal other than livers (frozen) | Rice |
| Duck foie gras | Sheep, live |
| Duck livers (fresh or chilled) | Sheep and goat meat |
| Duck (whole, frozen) | Soybeans |
| Fruit jams & marmalades | Strawberries |
| Grape & apple juice | Sugar cane |
| Grapes | Swine (for slaughter) |
| Guts, bladders, stomachs of animals | Swine & bovines edible offal |
| Maple syrup, cane molasses & syrups | Tobacco & cigars |
| Oilseed flours | Water |
| Oilseed oils | Wheat |
| Peaches | Wine |

***Source***: Ministry of the Economy, Mexico

The Mexican government has recently utilized the special safeguard and anti-dumping measures to test unfair trading practices. For example, Mexico has initiated a special safeguard investigation against imports of US chicken legs and thighs and an anti-dumping investigation against imports of US pork. Although Canada has not been named in these actions, the government is monitoring the situation carefully. This also implies that Canadian exporters need to monitor the products they export and take into consideration the potential for Mexico to resort to the safeguard measures provided for under NAFTA.

## Looking ahead

There are great opportunities for the enhancement of trade between Canada and Mexico. This paper has focused on merchandise trade, however, there is also significant opportunities to enhance the trade in services. Canada does not currently measure the trade in services with Mexico. This is an area that will deserve much more attention in the years ahead.

There is a need to continue to improve the trade data between Canada and Mexico. It is important that with the development and implementation of food policies and programs such as traceability systems, country of origin labeling requirements, food identity preservation, and overall food safety preservation, that our countries within North America be able to properly quantify and monitor the agri-food flow of trade.

The phenomenon of export misallocation and export under-coverage described above requires special attention in light of the kind of analysis being attempted in this paper. While it is recognized that national statistical agencies such as Statistics Canada do their best to provide good quality merchandise trade data, it is also quite obvious that import data are typically more accurate than export data.

If the official import and export statistics published by Statistics Canada or Mexico were used in isolation for the above analysis, the patterns emerging would have been quite different. Consequently, trade reconciliation processes such as the ones undertaken by Statistics Canada, in collaboration with other countries, should be encouraged. But more importantly, a shortfall of this process should be remedied. The reconciled data shed some light on some of the difficulties in using the official statistics. Yet, such reconciled data, for reasons of lack of detail and other factors, are not substitutable for the official statistics that are used by most clients.

Possible approaches to resolving the above issues are:

1. More resources should be devoted to eliminating the problem of export under-coverage. This should include implementing penalties for exporters who are found not to have reported their export activities to the appropriate agency.

2. In the meantime, more frequent studies of the reconciliation of data should be conducted and the results used to adjust the official national statistics so that all clients would be able to use the same trade data.

3. As far as country misallocation is concerned, it is recommended that administrative documents used in compiling trade and in-transit movements be streamlined among the NAFTA participants. This will not only improve the quality of the trade data, but it will also reduce response burden for international merchandise traders.

Canada and Mexico have very complementary agri-food systems. For example, Canada requires the fresh fruits and vegetables that are supplied by Mexico and Mexico requires the meat, cereal grains and oilseeds that Canada has a competitive advantage in producing. While areas of trade cooperation exist, there are also areas of potential conflict. For instance, over the past several years, western Canadian farmers have become increasingly competitive in the production of pulse crops (i.e., lentils, chickpeas, beans). Mexican diets are dominated by such crops and Mexican farmers have therefore been dominant in supplying their domestic market. Any market share gained by Canada or the US in these crops could have a displacement impact on Mexican farmers.

There is no doubt that the value of agri-food trade with Mexico has significant room and opportunity to grow in the years ahead.

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