

# “The Mexican Hog Industry: Moving Beyond 2003”

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# Introduction

In the past, hog prices in Mexico were usually sufficient to compensate for high production costs and certain institutional barriers.

Today, the Mexican hog sector faces many challenges:

- \*Competition with cheaper meat alternatives (chicken)
- \*Changes in consumer preferences
- \*Delayed implementation of sound disease control campaigns
- \*Lasting consequences of financial crises over past 25 years

Very easy to treat NAFTA as a scapegoat

# Introduction (continued)

Purpose of paper:

To show how Mexican hog producers can take advantage of NAFTA in order to increase their competitiveness

Several ideas are offered for increasing the competitiveness of Mexican hog producers:

- \*Lowering feed costs
- \*Improving transportation facilities
- \*Establishing greater control over swine diseases

# Background

Per capita pork consumption in Mexico:

1982: 35 pounds per year

2000: 27 pounds per year

Tremendous potential for consumption growth

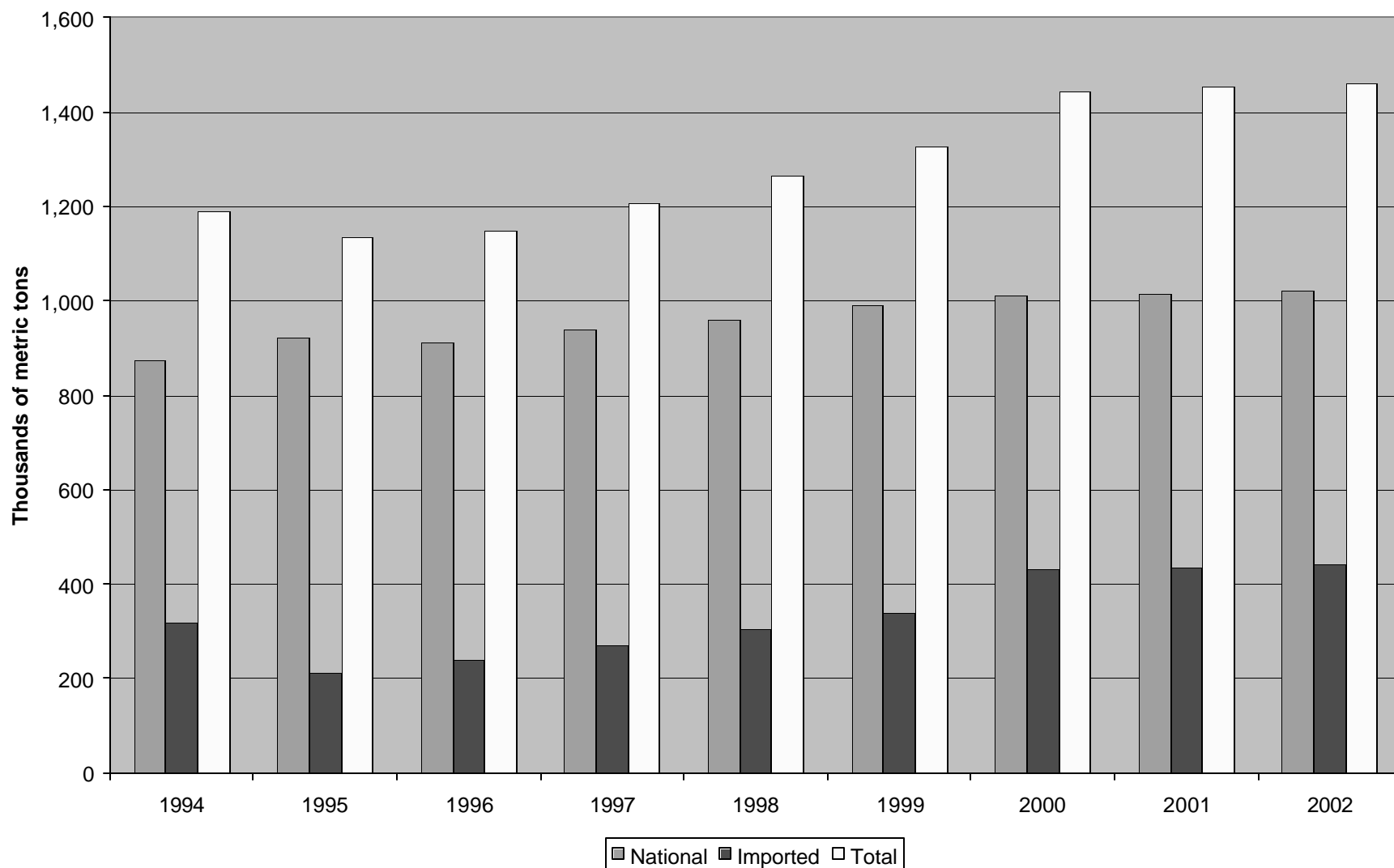
Between 1994 and 2002:

Pork consumption grew 23 percent

Pork production grew 17 percent

Imports:           30 percent of consumption in 2002  
                      27 percent in 1994

**Figure 1--Mexican Pork Consumption, 1994-2002**



## Background (continued)

Imports have risen substantially:

1994: 317,000 metric tons

2002: 440,000 metric tons

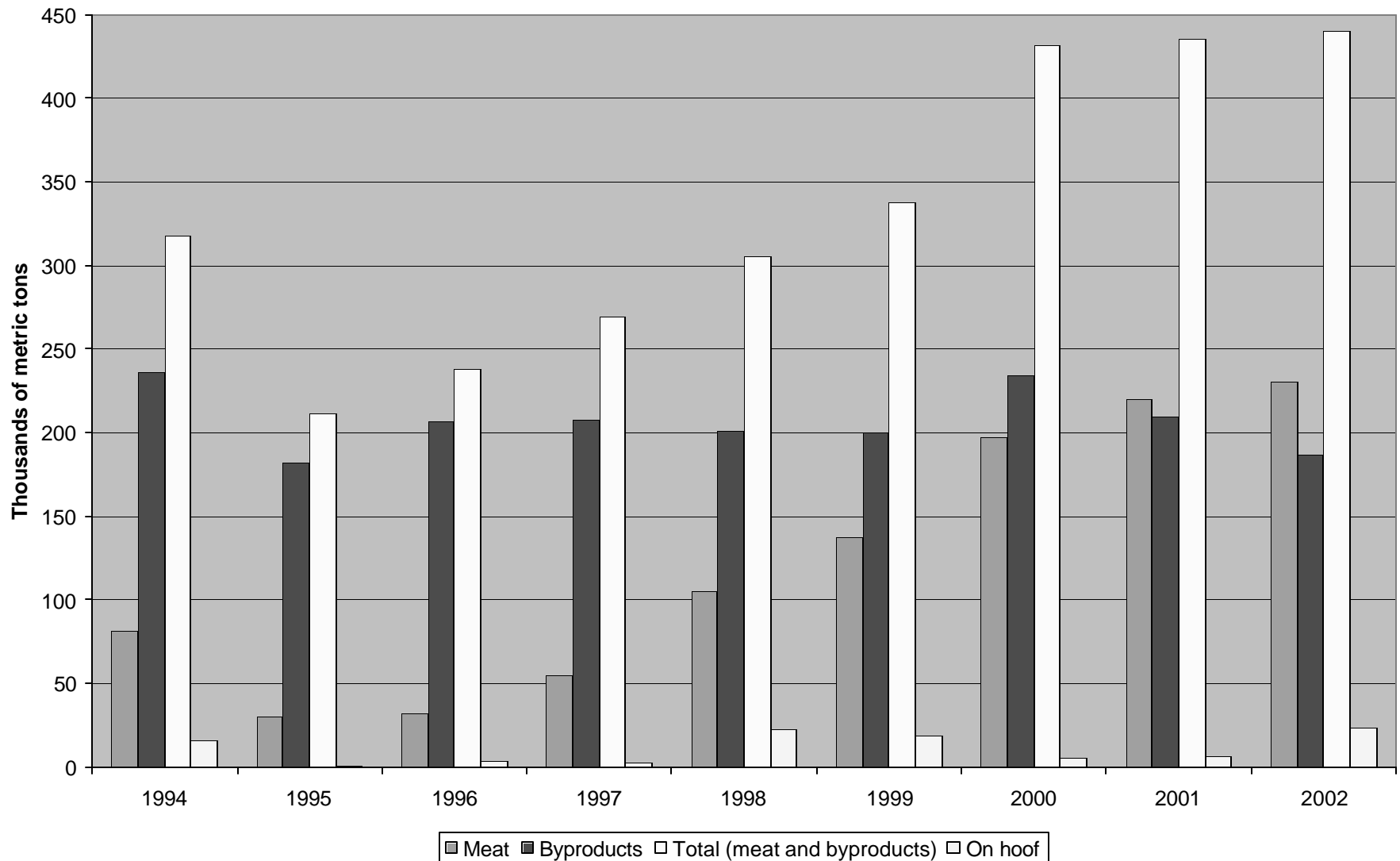
Composition of imports has changed greatly:

1994: Meat (26 percent), Byproducts (74 percent)

2002: Meat (52 percent), Byproducts (48 percent)

Lost production capacity due to peso crisis of 1994-95  
partially to blame

**Figure 2--Composition of Mexican Pork Imports, 1994-2002**



# Mexican Hog Prices: From Paradise to Nightmare

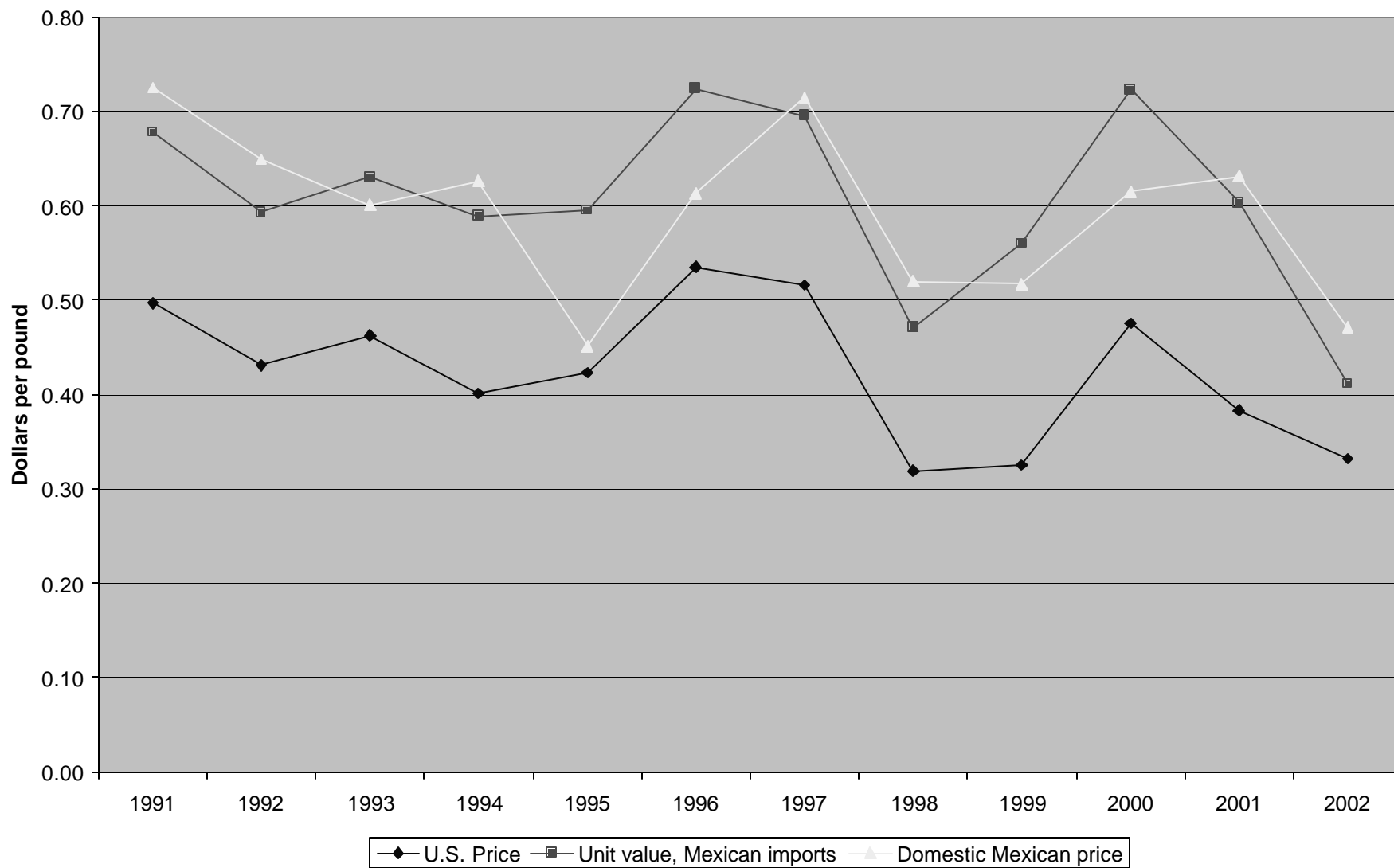
1991-94: Favorable prices  
(above 60 cents per pound)

Since then, several occasions in which Mexican hog prices have been particularly low:

1995:	Economic crisis
1998, 1999, 2002:	Corresponded closely with sharp decline in U.S. price



**Figure 3 -- Hog Prices in Mexico and the United States, 1991-2002**



# Comparison of Production Costs (U.S. and Mexico)

Cost of producing a 5.6-kilogram weaned pig:

U.S.: \$22.29

Mexico: \$20.10

Feed: 44 percent of costs in Mexico

29 percent in U.S.

Difference: \$4.01

Labor: 10 percent of costs in Mexico

33 percent in U.S.

Difference: -\$4.25

Catching & hauling: Difference: \$0.86

**Table 4--Comparison of Production Costs in United States and Mexico**

Concept	U.S. top	Mexico	Difference	%
Production Credit	\$20.10	\$22.90		
Costs of Production				
Breeding Stock	\$0.66	\$1.27	\$0.60	91%
Management	\$2.00	\$0.96	-\$1.04	-52%
Salaries & Benefits	\$4.56	\$1.33	-\$3.23	-71%
Feed	\$5.87	\$9.88	\$4.01	68%
Medication	\$0.27	\$0.37	\$0.10	35%
Vaccination	\$0.15	\$0.19	\$0.05	34%
Catching and Hauling	\$0.03	\$0.90	\$0.86	2799%
Utilities	\$0.65	\$0.61	-\$0.04	-6%
Depreciation	\$2.03	\$2.81	\$0.78	39%
Repairs & Maintenance	\$0.49	\$0.50	\$0.01	2%
Supplies	\$0.46	\$0.42	-\$0.04	-8%
General & Administrative	\$0.95	\$1.50	\$0.55	188%
Waste Disposal	\$0.48	--	-\$0.48	-100%
Communications	\$0.02	--	-\$0.02	-100%
Subtotal	\$18.62	\$21.98	\$3.36	18%
Other	\$1.48	\$1.56	\$0.09	6%
Total	\$20.10	\$22.29	\$2.20	17%

# Current Health Status for Classical Swine Fever, March 2002



Free

Eradication

Control

# Other Competitiveness Issues

- \*Fixed costs for electrical installation  
(3 miles of new line, all paid by the producer)
- \*Transportation costs  
Higher fuel costs (\$1.79 vs. \$1.40 per gallon)  
Toll costs (\$141 per trip!)
- \*Securing sufficient credit at competitive rates
- \*Robberies

# Options to Improve Competitiveness

- (1) Free trade for entire production chain
- (2) Improve maritime transportation facilities
- (3) Use alternative feed ingredients
- (4) Improve sanitary controls
- (5) Expand agricultural finance

# Mexico's Corn Import Policy

Limits amount of corn that can be imported

Appears to exert upward pressure on the price of substitute feed grains (most notably sorghum)

Makes it difficult to utilize hedges and other opportunities for speculation with respect to corn

# Mexico's Corn Import Policy (continued)

NAFTA: U.S. corn exports to Mexico subject to  
14-year transition period (1994-2007)

Duty-free tariff-rate quota:

2002: Approximately 3.2 million metric tons  
Over-quota tariff = 108.9%

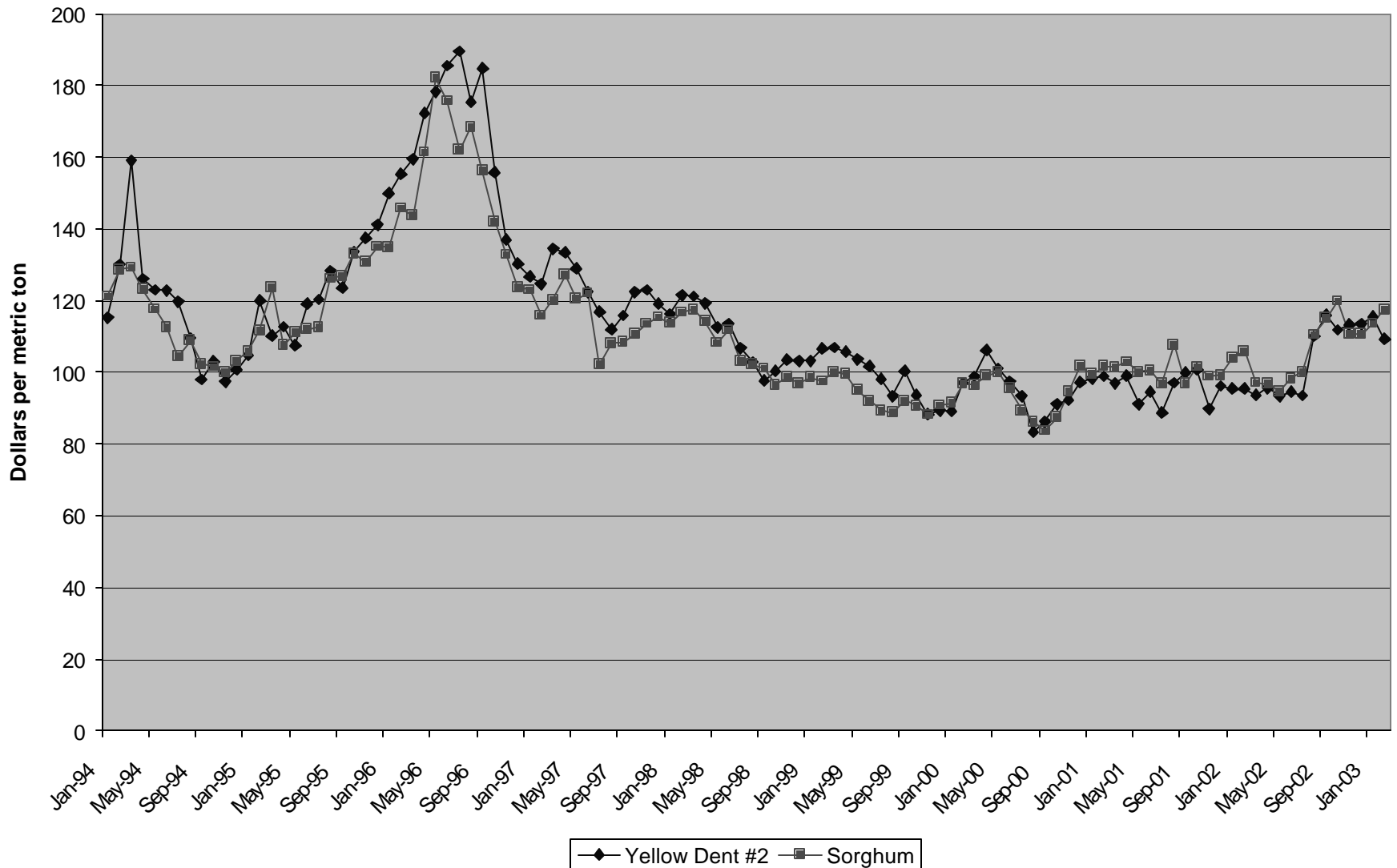
But Mexico has issued additional import permits

2002: 3.167 million metric tons  
Tariff = 1% (white) or 2% (yellow)

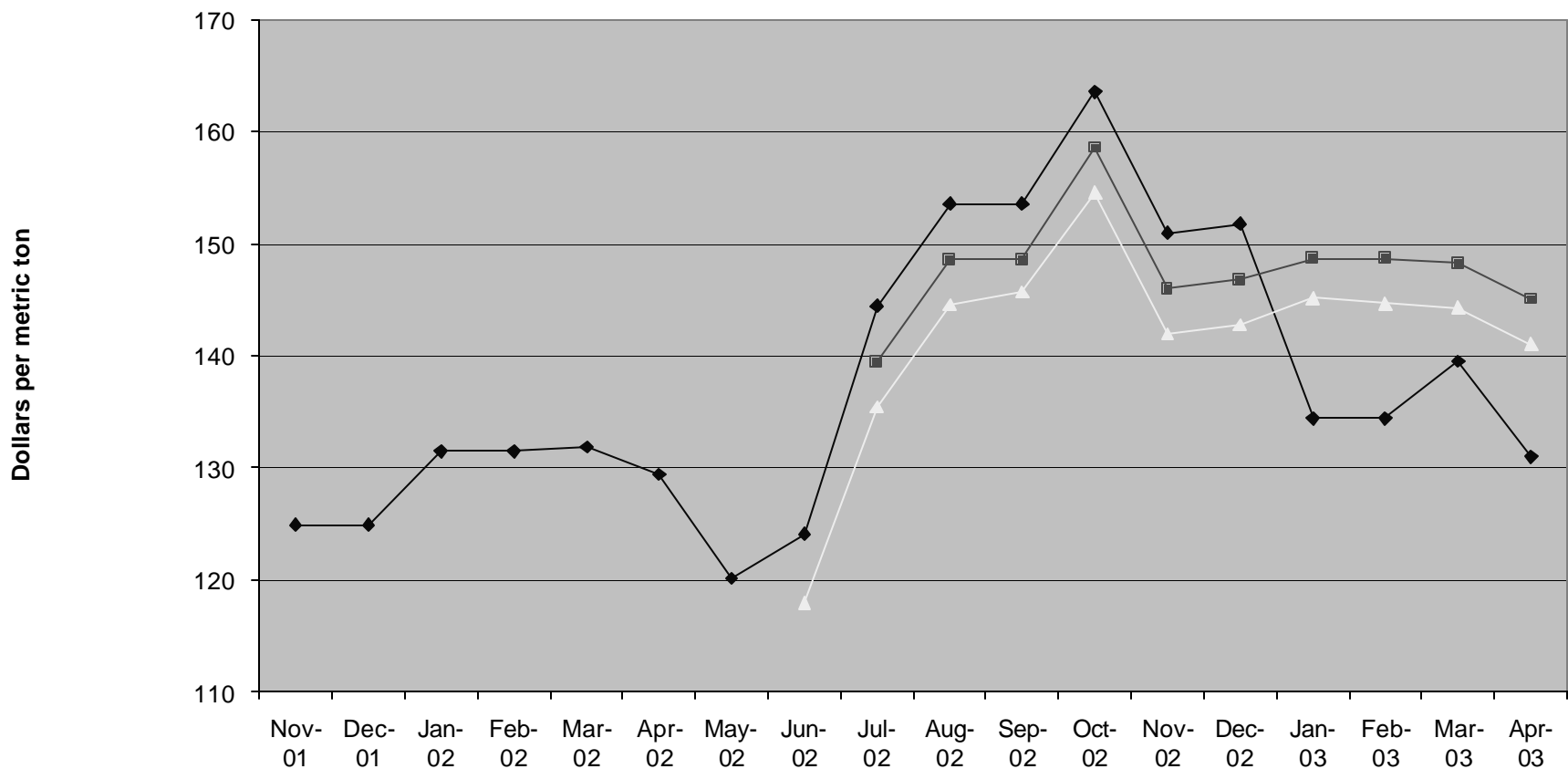
Quantities allocated among several industries, including  
hog producers, poultry producers, starch manufacturers,  
and flour millers



## Unit value of U.S. exports to Mexico: Corn versus Sorghum



**Figure 5 -- Veracruz Prices for Imported Grains, November 2001 - April 2003**



	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03
—◆— Sorghum	124.9	124.9	131.4	131.4	131.8	129.4	120.1	124.1	144.4	153.5	153.5	163.5	150.9	151.7	134.4	134.4	139.5	131.0
—■— Cracked corn									139.4	148.5	148.5	158.5	145.9	146.7	148.6	148.6	148.2	145.0
—▲— Yellow corn								118.0	135.4	144.5	145.7	154.5	141.9	142.7	145.1	144.6	144.2	141.0

# Options to Improve Competitiveness

- (1) Free trade for entire production chain
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# Conclusions

Innovative solutions needed -- some of which may go against established convention

Free trade is in the best interest of the consumer

Extremely difficult for Mexican hog producers to compete in an open market for final products when the prices of key inputs are kept artificially high through continuing import restrictions.

## Conclusions (continued)

In the immediate future, Mexico is not likely to match Canada and the U.S. as a competitive grain producer.

But it is not necessary for Mexican hog producers to duplicate every element in the balance sheets of their Canadian and U.S. competitors.

Nor is it necessary to match their production costs.

The Mexican hog sector simply needs to get its production costs below the sum of foreign production costs plus freight costs to Mexican markets.