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U.S. Grain Imports to Mexico Remain Steady at the Beginning of Marketing Year 2008

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Report Highlights: Recent data published by the GOM indicates that Mexican importers of grain appear to have successfully anticipated the NAFTA opening in the corn market by shifting purchases that traditionally occurred in the first quarter of the marketing year (Oct-Dec) to the beginning of the second quarter of the marketing year (Jan-Mar). In addition, the market also saw a shift to traditional yellow corn purchases this January from the previous January where buyers imported cracked corn as a substitute for traditional yellow corn imports that were restricted under NAFTA's implementation phase. Import of yellow corn also saw an increase as importers substituted corn for higher priced sorghum.

Includes PSD Changes: No
Includes Trade Matrix: No
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SUMMARY

Initial data indicates that the NAFTA opening for corn has proceeded smoothly, and traders, in anticipation of the changes, have adjusted buying patterns as market forces would have suggested. In light of the recent liberalization of the corn market under NAFTA, U.S. corn exports are under increased scrutiny. Recent Mexican press reports have headlined the fact that U.S. corn exports to Mexico have increased dramatically in January 2008 compared to the same month in previous years. Many of the articles have also cited commentary from some Mexican industry participants that this increase is due to the ending of tariffs and tariff-rate quotas, and is direct proof that U.S. corn will flood the Mexican market due to tariff liberalization. However, a deeper examination of the figures shows that overall U.S. corn and coarse grain exports to Mexico have not entered Mexico at an unusually high rate and that an increase in corn exports in January was to be expected due to changes in import procedures.

ANALYSIS

Citing official statistics, the Mexican press has reported that U.S. corn imports have increased approximately 17 times more in January 2008 compared to the same time period a year ago. While there is little dispute of the veracity of this statistic, a broader look at recent patterns and review of the reasons for the number suggest that this increase does not necessarily represent a large change in overall import demand for U.S. corn and coarse grains in Mexico.

A more complete analysis of the imports of the food and feed grain markets, taking into account all types of corn and coarse grains used within the sector, leads to a different picture. Such a tally would include imports/exports of the following products; yellow corn, white corn, cracked yellow corn, and sorghum. Second, it should be understood that under the implementation phase of NAFTA January has been an atypical month for corn exports. Due to the time that was needed for the GOM to implement and process its import permit system for corn imports for a new calendar year; importers would often not be able to use the system for much, if not all, of January, limiting trade outside of normal monthly shipping patterns. Thus it would be expected that importers would either maintain higher inventory leading into the year, or increase purchases of cracked corn which, although slightly more expensive, was able to enter into Mexico duty-free without any import permit requirements.

Given these factors, an analysis of Mexico's official data for coarse grains and cracked corn imports for the first four months of the MY 2007/08 (Oct-Jan) versus the same period of the previous year (see tables below for details) indicates that Mexico's imports of cracked corn, sorghum and corn (yellow and white varieties) actually declined approximately 12 percent overall, despite the large increase in yellow corn imports in January. Two main factors explain the shifts:

1. A strong international price increase (roughly 21 percent higher) for sorghum during the past 12 months has generated a more favorable price advantage for yellow corn, thus increasing yellow corn imports while reducing sorghum imports, as feed grain users routinely substitute sorghum with yellow corn imports and vice-versa depending on prices.
2. Cracked corn imports declined nearly 56 percent during the first four months of MY 2007/08 (Oct-Jan) compared to the same time period a year ago, including, most notably, registering a 450,000 ton decrease comparing January 2007 to January 2008. This shift is understandable, as before January 1, 2008, feed grain users often imported higher priced cracked corn in order to avoid the TRQ under NAFTA (see

MX7024 and MX6019), and now that NAFTA eliminated the TRQ system, there is less reason to import cracked corn.

Moreover, it should be pointed out that Mexico's average monthly imports of yellow corn over the first four months of MY2007/08 are 844,453 MT, practically the same average registered during the same time period MY 2006/07 (834,212 MT) and making January's import figure of 800,998 MT actually below recent monthly averages.

CONCLUSION

It may be too early to make sweeping conclusions over the impact that the final phase of implementation of the NAFTA will have on Mexican corn import patterns or the Mexican corn market as a whole. However, it appears that Mexican buyers of U.S. grains have reacted rationally to the policy changes; having moderated end of year purchases in 2007, instead buying more consistent amounts in January as now allowed by the liberalized market; shifting purchases from more expensive cracked corn to traditional yellow corn; and decreasing purchases of sorghum as its price has risen in recent months.

Mexico - Cracked Corn Imports H.S. Code: 11042301 (Quantity MT)

Oct 2006	Nov 2006	Dec 2006	Jan 2007	Oct 06-Jan 07*
116,382	157,198	48,500	466,306	788,387

					% Change
Oct 2007	Nov 2007	Dec 2007	Jan 2008	Oct 07-Jan 08	Oct 06-Jan 07 Oct 07-Jan 08
147,343	127,390	56,553	16,336	347,624	-55.91

*Source: SIAP/SAGARPA & Economy

Mexico - Sorghum Imports (Quantity MT)

H.S.	OCT 2006	Nov 2006	Dec 2006	Jan 2007	Oct 06-Jan 07*
10070002	103,480	123,624	47,026	0	274,132
10070001	4,544	1	43,751	58,132	106,427
TOTAL	108,024	123,624	90,778	58,132	380,559

						% Change
H.S.	OCT 2007	Nov 2007	Dec 2007	Jan 2008	Oct 07-Jan 08*	Oct 06-Jan 07 Oct 07-Jan 08
10070002	102,046	72,592	13,279	42,976	230,894	-15.77
10070001	0	0	51,993	90	52,084	-51.06

TOTAL	102,046	72,592	65,273	43,066	282,978	-25.64
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*Source: SIAP/SAGARPA

**Mexico - Corn Imports
(Quantity MT)**

Description	Oct 2006	Nov 2006	Dec 2006	Jan 2007	Oct 06-Jan 07
-- World --					
1005 Corn (Maize)	941,138	1,039,667	1,358,911	56,922	3,396,639
Yellow Corn	938,561	1,037,026	1,323,467	37,794	3,336,849
White Corn	2,577	2,640	35,443	19,127	59,790

						% Change
Description	Oct 2007	Nov 2007	Dec 2007	Jan 2008	Oct 07-Jan 08	Oct 06-Jan 07 Oct 07-Jan 08
-- World --						
1005 Corn (Maize)	942,041	878,573	756,208	800,988	3,377,812	-0.55
Yellow Corn	941,330	878,573	756,208	751,500	3,327,613	-0.28
White Corn	710	0	0	49,488	50,198	-16.04

Source of data: Secretariat of Economy & SIAP/SAGARPA