NEW ZEALAND
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Mexico Agriculture Update

MARKET INTELLIGENCE REPORT

Report

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Over the past five years, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has improved agricultural market access for New Zealand into Mexico. But there are further opportunities to progress its implementation, as well as significant openness within Mexico to increase agricultural cooperation and engagement with New Zealand.

Challenges and opportunities for New Zealand agriculture in Mexico

Mexico is New Zealand's largest trading partner in Latin America, 27th largest overall, and 24th biggest export market for agricultural products. Through CPTPP, New Zealand now has duty-free access on 79% of Mexico's tariff lines, with tariffs continuing to phase out on a further 19.5% of lines. By 2027, New Zealand will have duty-free access on over 97% of Mexico's tariff lines, and just under 99% by 2033. In addition, New Zealand has duty-free access through CPTPP for specified volumes of dairy products into Mexico through shared quotas.

New Zealand's goods exports to Mexico increased by almost 40% from CPTPP's entry into force on 30 December 2018 through to the end of 2022, from $335 million to $497 million, with primary industries accounting for a clear majority of exports. Key exports include dairy products (including casein), machinery and appliances, fruit, and meat. While some of the increase can be attributed to CPTPP, other reasons include higher commodity prices and increased Mexican demand for key exports.

Mexico has a significant demographic of high-income earners (8-9 million by one estimate) and medium income or aspirational consumers (15-25 million), with a high level of receptiveness to foreign goods and services. 60% of Mexico's food is imported. With a population of around 130 million and as the 16th largest global economy, there is significant potential to increase New Zealand exports.

One challenge raised by New Zealand businesses is how to best position themselves alongside better-known and trusted American and European companies on the Mexican market. While the reputation of New Zealand products and solutions is excellent in Mexico, the significant number of American companies active there can make it a crowded market environment. CPTPP has gone some way to alleviate this, although success in the market still requires sustained engagement, long-term relationship building, and the identification of local partners. New Zealand's sustainability credentials and the innovations that New Zealand companies provide in the agri-tech space are of increasing interest in Mexico, given consumer demands and environmental issues such as water scarcity.

Mexico has consolidated its position as the world's seventh largest agricultural exporter, selling its products to 192 countries. Reflecting the fact that 80% of its overall trade is with the United States, 75% of its agricultural exports go to its northern neighbour (USD$38.79 billion in 2021). The agriculture sector makes up around 3.6% of GDP and accounts for 12% employment. Although Mexico's agricultural sector is diverse, it suffers from a number of structural challenges. Industrial agriculture, which represents around 10% of the sector, is concentrated in the northern states and contributes three-quarters of Mexico's agricultural exports. In the southern states, agricultural production is mainly for subsistence. Around 80% of farms in Mexico are 5 hectares or less, limiting the establishment of economies of scale. The current administration has focused on programmes that subsidise small-scale farming in less developed areas, such as guaranteed minimum prices for producers of maize, beans, wheat, milk and rice.

In this context, there is significant interest from Mexico, at both the federal and state level, in New Zealand agricultural practices and cooperation in order to increase the productivity of the Mexican agricultural sector. In 2019, Hon David Parker, then Minister for Trade and Export Growth, and Victor Villalobos, Secretary of Agriculture and Rural Development, signed the Memorandum of Cooperation between New Zealand and Mexico in Agricultural Matters, with the aim of facilitating this engagement. The visit of New Zealand's Special Agricultural Trade Envoy, Mel Poulton, in September 2022 provided a further opportunity for exchange on potential avenues for cooperation.

Key challenges facing the Mexican agriculture sector

Inflation in Mexico is currently around 6.25%. This follows annual inflation of 7.82% in 2022, the highest rate in Mexico in more than two decades. To address this, President López Obrador put in place an ambitious anti-inflation plan. The plan includes the temporary elimination of tariffs on a wide range of essential food items, originally announced in May 2022 and extended in January 2023, as well as the announcement in October 2022 that key importers with a specific registration would be able to access streamlined sanitary inspections in exchange for guaranteeing low consumer prices.

Many of the substantive implementation details of the plan are yet to be finalised. SENASICA, Mexico's regulatory body, emphasised that in implementing the plan, Mexico will continue to uphold food safety standards and remain compliant with its World Trade Organisation and Free Trade Agreement obligations. The US has been following the situation particularly closely given the free movement of certain agricultural goods between the US and Mexico. A key concern was that if Mexico relaxed sanitary requirements for entry into Mexico, sub-standard products could make their way into the US food chain.

One of the more contentious elements of the government's inflation response is the significant subsidisation of petrol, which the government claims has kept around 2% off inflation. Economic commentators have criticised the plan's high implementation costs and raised doubts about whether it has had a significant impact on final prices for consumers.

Water scarcity has also become a key risk, with around half of the country facing moderate to severe drought over the past year. This has been particularly acute in the northern states, resulting in plans to relocate some industrial agricultural production to the south. This has created real changes to land use. Permits have also been refused for further industrial water use, including for beer production. While solutions are being worked through, such as desalination plants in Baja California, there is significant tension between the federal and State governments, as well as the private sector regarding who is responsible for funding these.

Formal consultations are ongoing between the US and Mexico under USMCA over a 2020 presidential decree banning the import of genetically modified corn by January 2024. The Mexican President justified this move with concerns about the health impacts for human consumption and the potential contamination of white corn varieties native to Mexico. It does not appear to be an economically driven decision, with some estimates suggesting that the ban as originally proposed could have cut Mexico's GDP by US$12 billion over the next 10 years. If implemented, the US stands to be the most affected. It has placed increasing pressure on Mexico to reverse the decision, including at the presidential level. In February 2023, Mexico narrowed the ban to cover only corn imported for human consumption, rather than for animal feed or industrial use. The United States requested technical consultations in March 2023 and then escalated these to formal consultations on 2 June, arguing that Mexico's proposed ban lacks a scientific basis. If the two neighbours are unable to reach a resolution through consultations, then the United States has the option of requesting the establishment of a panel to issue a binding decision. Given the significant proportion of Mexico's agricultural exports to the US, any bilateral dispute in this area will be a key focus for the Mexican government.

In conclusion, there is significant openness in Mexico to New Zealand agricultural cooperation and to New Zealand products. Mexico has a complex regulatory environment to navigate and the dominance of the US relationship and its impact on the Mexican market means that a strategic and sustained approach is needed if New Zealand firms want to be competitive in this market. However, there is significant opportunity for those who invest in a long-term manner.

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