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Mexico is making overtures to Brazil and Argentina, two of the largest agricultural producers in South America and globally, to supply some of its commodity-import needs, particularly soy, corn, beef, and chicken. These are among the major items that Mexico obtains from the US, but uncertainty about the fate of the North American Free Trade Agreement (NAFTA) has prompted Mexican authorities to begin to look to its South American neighbors.

Mexican Agriculture Secretary José Calzada has planned a trip to Brazil during March to discuss possibilities for imports of Brazilian commodities in the case that a renegotiation of NAFTA creates unfavorable conditions for imports of US products. Another outcome of a possible NAFTA renegotiation is that the US could impose tariffs on products manufactured in Mexico, which would prompt Mexico to impose tariffs on US agricultural imports, increasing their cost. This creates the need for alternative sources to help supply industries that rely on US agricultural imports, especially livestock and poultry producers.

"The United States unilaterally wants to change the established rules of the game," Eleazar Velasco, Mexico's chargé d'affaires in Brasilia, said in an interview with Reuters. "This will evidently lead us to rebalance our trade relations."

According to Mexican officials, corn could become one of the key commodities under negotiation when Mexico and the US discuss any changes to NAFTA. Over the past several years, Mexico has imported about 10 million tons of corn from the US annually at a cost of about US$2.3 billion. Mexico would likely cut back on imports from the US in retaliation for any tariffs that the US imposes on imports of Mexican products.

US President Donald Trump's administration has not defined a clear position on any proposed changes to agriculture provisions in NAFTA, but the US government is facing strong pressure from the major corn producing states to maintain the status quo. "Many of the states that voted for Trump have Mexico as their top client," Calzada told the daily newspaper Milenio. "We'll have to see what kind of pressure comes from these states." Among the top US corn producing states, Trump scored victories in Iowa, Missouri, Kansas, and Nebraska, but lost to Hillary Rodham Clinton in Illinois and Minnesota.

Bumper crops in Brazil, Argentina

To make up for any reduction in imports from the US, Mexico could turn to Brazil and Argentina. Brazil is projected to increase its corn production for 2016-17 to about 93 million tons, an increase of 22 million tons from the previous year.

"Corn is the main staple for the Mexican population," Velasco told Reuters. "If the rules are changed, we will have to buy from others, and Brazil is in the best position."

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Mexico is also considering increasing its purchases of Brazilian soy, a product also used to produce meal to feed livestock and poultry. Brazil, which is the world's leading exporter of soybeans, is projecting a record crop of 101 million tons for the 2016-17 marketing year. The record production would be the result of an increased planting area, according to an Oct. 3 report from the US Department of Agriculture. Brazil and Argentina have both increased soy production in recent years (NotiSur, April 11, 2014).

The private forecaster INTL FCStone has projected Brazilian soy exports for 2016-17 at 59 million tons, compared with 51.6 million tons the previous year. A large share of the increased exports will go to China, but sales to Mexico could also grow. In recent years, Mexico has imported only a small amount of Brazilian soy. According to Bloomberg news service, Brazil exported 129,000 tons of soy to Mexico in 2015-2016, compared with 38.6 million tons to China.

Argentine corn and soybeans also remain an option for Mexico, and Calzada discussed increasing purchases of the two commodities during a meeting with Argentine Foreign Minister Susana Malcorra. "Argentina was the first country to give us support when the US began its attacks on Mexico," Calzada said during a trip to Buenos Aires. "I would like to explore the possibility of buying soy from them … Argentine soy is cheaper and equal in quality to US varieties."

Calzada said Mexico is the second-largest importer of soy in the world, surpassed only by China. Of its total consumption of 5 million tons of soy annually, 92% is imported from the US. "We would also like to send the message that we can buy these products from other countries without a problem," he said.

Mexico is the largest buyer of US corn, spending US$2.5 billion in the 2015-2016 season, compared with US$1.8 billion for Japan, which ranks second, according to the US Grains Council. Mexico has spent US$800 million on US corn so far in the 2016-2017 season.

Mexico also ranks second in purchases of US beef, with imports totaling US$1 billion in the 2015-2016 season, according to the US Grains Council.

Calzada pointed out that the increased distance needed to transport South American commodities relative to US commodities would not be a problem for Mexico. "A ship with 50,000 to 70,000 tons of product would take 15 days to reach Puerto Progreso [in Yucatán state], and the expenditures on logistics and transportation would represent only 1% of the total cost," he said.

Argentina also has ample supplies of corn, with farmers increasing planted area in response to the government's decision to eliminate export taxes on that commodity. "Argentina exported only 97,000 tons of corn to Mexico in 2016, but that is bound to increase in 2017," said the agricultural publication Soybean and Corn Advisor.

A move to diversify suppliers

The Mexican business sector and the Mexican Congress are strongly in favor of diversifying the sources of agricultural imports. The Consejo Coordinador Empresarial (Business Coordinating Council, CCE), one of the leading business chambers in Mexico, believes that making arrangements to import corn, soybeans, and other farm products from South America, Australia, and Asia could give Mexico a bargaining chip during renegotiation talks on NAFTA, which President Trump wants to hold this year.

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"We'd like to keep the trade deal as it is, but right now we have to look for alternative producers, and Brazil and Argentina could work," CCE president Juan Pablo Castañón told Bloomberg news service.

In Congress, Sen. Armando Ríos Piter, a member of the center-left Partido de la Revolución Democrática (PRD), introduced an initiative that would reduce and perhaps eliminate Mexico's dependency on corn imports from the US. Under the plan, the government would be required to increase investments on domestic corn production.

"This initiative intends to underscore our advantages in our relationship with the US, and to send the message that messing with Mexico would have an important cost," Ríos Piter wrote in his regular guest column in the daily newspaper Excélsior. Ríos Piter acknowledged the need for Mexico to continue at least some imports of corn, but he urged for a diversification of sources, since most of the supply has come from the US. "In 2015, we were the country that bought the most corn from our northern neighbor," he said.

Ríos Piter spearheaded the creation of a group in the Senate to work on measures to counter immigration-related initiatives put forth by the Trump administration that hurt Mexico. Known as Operación Monarca, the project brings together senators from the states that send the most migrants to the US, including Guanajuato, Jalisco, Oaxaca, Michoacán, and Zacatecas. Among those who are taking part are Sens. Juan Carlos Romero Hicks of the center-right Partido Acción Nacional (PAN), Jesús Casillas and Marco Antonio Olvera of the governing Partido Revolucionario Institucional (PRI), and Benjamín Robles Montoya and Iris Vianey Mendoza of the PRD.

"As Mexicans, we have the obligation to say, 'enough is enough,'" Ríos Piter said in reference to his proposal to curtail imports of US corn. "We are through having to cower, having to endure, having to face the intimidation from Mr. Trump, who has frequently blamed Mexico for the big problems his nation is facing."

NAFTA changes could affect avocados, other produce

While the major crops and meats might garner most of the attention, there are implications for other agricultural products with a renegotiation of NAFTA. The imposition of tariffs could reduce exports of certain items popular among US consumers, including avocados, berries, tomatoes, and other fruits and vegetables produced in northwest Mexico.

The US has become one of the largest markets for Mexican avocados, in large part due to NAFTA, which gradually eliminated restrictions on imports of this product (SourceMex, Dec. 8, 2004, and Feb. 14, 2007). In 2015, US households consumed a record of nearly 1.9 billion pounds (about 4.25 billion avocados), more than double the amount of 2005 and almost four times as high as 2000, according to statistics from the US-based Hass Avocado Board.

According to FreshFruitPortal.com, US avocado consumption increased by 76.5 million pounds from 2015 to 2016. This increase came despite a slight decrease in imports from Mexico, where producers went on strike during a week in July to demand a better pricing mechanism for their exports.

Under normal circumstances, Mexican exports were expected to recover in 2017, in part due to increasing production in the states of Michoacán and Jalisco. The volume of avocados imported by the US from Mexico in 2017 could increase by 20.8% over the prior period, according to FreshFruitPortal.com.

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Mexican producers are concerned that changes to NAFTA could derail any recovery in exports. “We hope negotiations will allow us to continue our trade in avocados as it has been up to now, because it has been a great benefit for the US consumer,” Ramón Paz, the strategy consultant for Mexico’s Asociación de Productores y Empacadores Exportadores de Aguacate (Association of Avocado Producers and Packers for Export, APEAM), said in an interview with the Spanish news service EFE.

Paz pointed out, however, that the impact on Mexico would not be significant if the US and Mexico went back to the previous system, where a duty of US$0.06 per pound was charged on Mexican avocados. “There is no other country that could supply the huge quantity of avocados needed by the United States all year long,” Paz said.

Producers of berries in Baja California and winter vegetables in Sonora and Sinaloa could also feel the impact of any tariffs imposed under NAFTA. Many of the berry and fruit producers are California-based companies that moved a portion of their production to Baja California over the past 20 years to take advantage of the relatively warm weather south of the border. The Mexican operations have helped these California businesses expand the growing season for raspberries, strawberries, and other fruits. “Our move really was for year-round product and quality,” Garland Reiter, CEO of Reiter Affiliated Companies, said in an interview with National Public Radio.

According to industry sources, Mexican exports of shipments of fruits and vegetables to the US have increased ninefold over the last 25 years, to US$12 billion a year. Raspberry exports alone have risen from zero in 1992 to US$500 million per year today.

While NAFTA had little direct impact on the decision of companies to locate operations in Mexico, the agreement did help create a better climate for US investors who were seeking not only the extended growing season but also cheaper labor.

Any new restrictions imposed by the US on imports of fruit from Mexico could have negative consequences for producers, but the impact would be greatest on US consumers, who would have to pay higher prices for Mexican produce.

Furthermore, producers point out that US tariffs will not cause production to return from northwest Mexico to the US. “If you look at the magnitude of the investment in Mexico, there’s no way that’s coming back to California,” Reiter said. “There’s absolutely no way.”

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