NAFTA Spells Success for Consumer-Oriented Products—With Some Reservations

By Joani Dong

Since NAFTA (the North American Free Trade Agreement) implementation began on Jan. 1, 1994, export sales of U.S. consumer-oriented products to Canada have soared, reaching $6.1 billion in calendar 2002, while sales to Mexico have leaped to $2.8 billion.

In 2002, U.S. consumer-oriented products made up the lion's share of all U.S. agricultural exports to Canada (70 percent) and Mexico (39 percent). Duty-free entry for most products has sparked sales, and so have lifestyle changes in Canada and Mexico that parallel trends in the United States: increased income, less free time, emphasis on convenience, more women working outside the home and more pet ownership.

Under NAFTA, just about every item in the U.S. consumer-oriented category experienced sales increases to both Canada and Mexico. U.S. dried soup to Mexico is a case in point, with sales in 2002 at $198 million, a whopping tenfold increase from 1993, the year before NAFTA began to take effect. This gain reflects the growing importance of convenience to consumers and growth of Mexico's restaurant and tourism industries.

Pet food exports to Mexico tell another success story. Between 1994 and 2001, U.S. exports of dog and cat food climbed from $30 million to $235 million, although they declined in 2002. Mexico's import market for pet food is one of the fastest growing segments in one of the fastest growing markets in the world, and the United States has more than a 95-percent share of it. Domestic production is increasing, but not enough to meet demand. Increasing per capita income has led to more pets per household, particularly in urban areas. Aggressive marketing campaigns and more visits to veterinarians have prompted Mexican pet owners to switch from table scraps to commercial pet foods.

From the Horse's Mouth

Here is a sampling of activities and experiences under NAFTA from state-regional trade groups and trade associations that work closely with FAS to promote U.S. agricultural exports.

The Mid-America International Agri-Trade Council and **Food Export USA** have engaged in a number of activities, such as conducting trade missions, arranging one-on-one meetings with U.S. companies and top retailers and organizing supermarket tours and displays. Companies participating in the cost-share branded program have steadily increased their sales. For instance, **Palermo's Villa**, a small family-owned pizza company, got such a positive response in the Canadian market through in-store promotions and samplings that it has had to expand facilities to meet demand.

The Western United States Agricultural Trade Association promoted western fruits and vegetables through in-store promotions with over 100 Soriana supermarkets in Mexico. Sales of promoted items reached a robust $907,000 in 2003, with an investment of only $14,650 in marketing funds. **The Perfect Puree of Napa Valley** line of Hayward Enterprises, Inc., was included in a five-day pastry course at the Maricu Culinary Arts Center in Mexico City, resulting in purchases by discriminating French chefs in first-class Mexican hotels.

The Southern United States Trade Association has found ways to benefit its member states through Go South!, an umbrella branding program to promote quality produce in Canada. The program promotes 19 commodities from 16 southern states through media and trade relations, in-store promotions and consumer information. Shipments of the 19 commodities promoted by Go South! have increased from 136 million pounds in 1996 to 206 million pounds in 2001. In 2002, while Mother Nature put a damper on many southern crops, shipments still reached 158 million pounds.

The Louisiana Department of Agriculture and Forestry cites two examples of the rewards and difficulties companies in the state have had under NAFTA. A Louisiana meat packer successfully conducted business for 2-3 years in Mexico and created solid business relationships. Orders from restaurant chains and resort hotels were good. Payments were punctual, and there were no significant export problems. Nevertheless, its business was interrupted when the Mexican government began charging small and medium-sized packers higher fees than the largest packers.

In another example, some Louisiana companies participated in display promotions with supermarket chains such as Carrefour and Wal-Mart, but found that the promotions did not lead to subsequent orders. The lesson here is that companies must follow through with further investments in publicity, demonstrations and other activities.

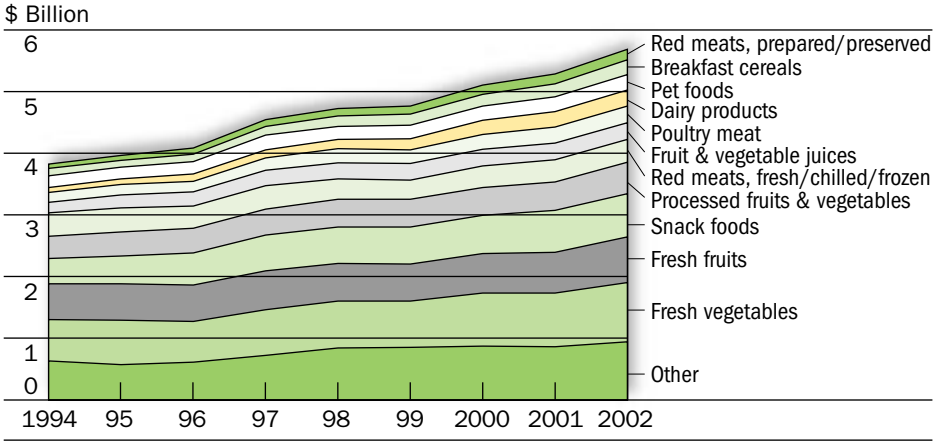
All companies need to know the particulars of their specific target markets, i.e, sanitary issues, labeling rules, other market

requisites and cultural differences in conducting business.

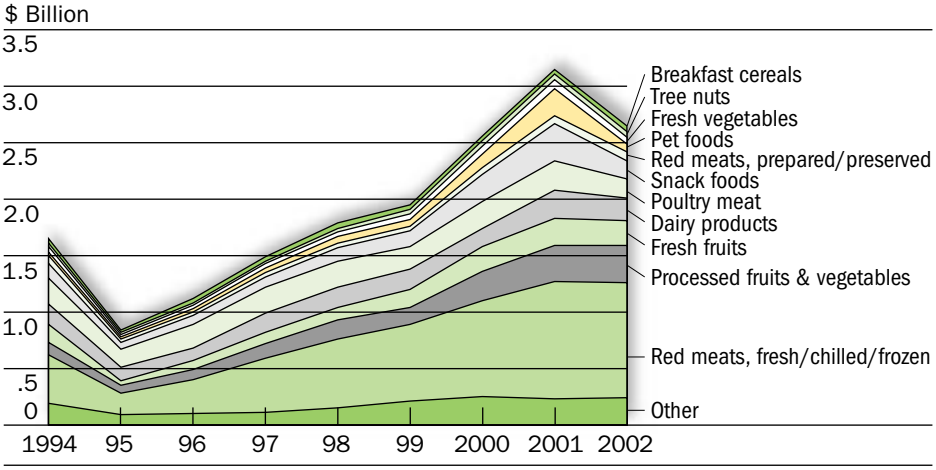
USAPEEC (the USA Poultry and Egg Export Council) experienced success of another kind. USAPEEC worked with its counterpart industry organization in Mexico, Union Nacional de Avicultores, to address issues that could have led to disruptions in poultry trade. The two groups and the U.S. and Mexican governments agreed to extend the tariff-rate quota transition period for leg quarters through 2008, and eliminate a number of excessive sanitary import requirements, to keep trade flowing. U.S. total broiler meat exports to Mexico are forecast to grow steadily through 2012 unimpeded by unnecessary sanitary import requirements.

Mexico has become the leading market for U.S. turkey exports and the second largest market for U.S. chicken. In fact, more than 90 percent of all sausage and deli meats produced in Mexico contain U.S. poultry ingredients, such as mechanically de-boned poultry meat and boneless turkey cuts.

Under NAFTA, U.S. Consumer-Oriented Product Exports to Canada Have Shown Substantial Broad-Based Growth…



…As Have U.S. Consumer-Oriented Product Exports to Mexico



Some Reservations Remain

Trade successes aside, there are still reservations. The National Food Processors Association represents the $500 billion food processing industry on scientific and public policy, food safety, nutrition, technical and regulatory matters and consumer affairs. Most of the association's 400 member companies depend on Mexico for raw materials and for markets for their finished products.

However, the association states that nontariff barriers for processed food exports to Mexico are significant, such as complex documentation and registration requirements for entry; inconsistent border procedures that result in rejections; excessive inspections; and costly detention of products for minor paperwork infractions. Mexico also requires expiration dating on all processed products, rather than the "best before" dating that is a more useful indicator of safety and quality. Temperature control throughout the distribution chain is a significant problem.

In addition, Mexico has imposed product conformity standards (standards of identity) that block several U.S. products from the market due to restrictive limitations on food additives and flavorings. Moreover, export certification requirements are restrictive for products that contain fresh, frozen and processed meat ingredients derived from ruminants. ■

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