

## EFFECTS OF NAFTA ON THE WHEAT INDUSTRY

**Summary.** The United States is a major supplier of wheat to Mexico. Mexico's imports have been variable, and are equal to about 2 percent of U.S. wheat exports. The NAFTA will increase Mexican incomes leading to growth in wheat demand, especially in the early years of the transition period when corn imports will be more constrained. The agreement should lead to a 40 percent increase in U.S. wheat exports to Mexico and enhanced U.S. prices, production, and total exports between now and the end of the transition over what would have been likely without a NAFTA. The NAFTA will likely add at least \$30 million to U.S. wheat industry revenues by the end of the transition period.

**Current Policies and Proposed Changes.** Mexico currently requires licenses for durum and other wheat imports and also applies a 10 percent tariff on durum wheat. Under the NAFTA, Mexico will eliminate its licenses for all wheat immediately and apply a common tariff of 15 percent which will be reduced to zero over a 10-year transition period.

U.S. tariff levels for wheat are currently at 0.77 cents per kilogram (about 7 percent ad valorem) and are scheduled for reduction to zero over 10 years for durum and 5 years for other classes. Export programs are unaffected by NAFTA.

**Current Trade Patterns and NAFTA Effects.** Mexico's wheat imports have been variable over the past decade, ranging from 50,000 tons in 1982 to about 1.2 million tons in 1988. Over the 1985-90 period, Mexican wheat imports averaged 600,000 tons annually and were about 12 percent of Mexican supplies and 10 percent of total Mexican grain imports. In 1991, imports were 650,000 tons. The United States typically holds the largest share of Mexican wheat imports.

Under NAFTA, U.S. wheat exports are expected to increase immediately, especially since Mexican producer prices for wheat will fall more in the early years than will corn prices. Increased incomes and reduced wheat production in Mexico will encourage increased U.S. wheat exports, although as corn prices decline later in the transition period, corn imports from the United States will increase at a faster pace.

By the end of the transition period, U.S. wheat exports to Mexico are expected to be consistently in the 1.0-1.5 million metric ton range, about 40 percent above the level that would be expected without a NAFTA.

U.S. farm prices will likely be slightly above prices without a NAFTA. NAFTA is expected to have small aggregate benefits for the U.S. wheat industry over the long term, with industry revenue up at least \$30 million.