The North American Free Trade Agreement (NAFTA) entered into force on January 1, 1994. Tariffs on U.S. wheat went to zero and spurred fantastic growth in a market that is currently our largest buyer. With U.S. wheat farmers facing financial hurdles, open access to the Mexican market is needed now more than ever. A prosperous Mexico is crucial for U.S. wheat farmers. It fuels a highly sophisticated milling and baking sector that knows how to use U.S. wheat. But these customers can also adapt to other wheat supplies, seen in the growing volume of non-NAFTA wheat entering the Mexican market in recent years.

Before and After NAFTA
Prior to NAFTA, state intervention and import tariffs kept U.S. wheat exports out of the Mexican market. NAFTA ended both and the newly opened market allowed U.S. wheat imports to skyrocket to an annual average of almost 3 million metric tons (more than 100 million bushels) today. Mexico, having imported more than 3 million metric tons by April 1 of the 2016/17 marketing year, was the largest U.S. wheat importer in the world.

Mexico is a Top 10 market for the three largest classes of U.S. wheat.

I need foreign markets to stay in business, and on my farm there’s no market more important than Mexico. We have the strength of NAFTA to thank for that.

– David Schemm, Kansas wheat farmer and National Association of Wheat Growers President

NEW NEGOTIATIONS CAN BUILD ON NAFTA’S SUCCESS

Wheat trade with Mexico under NAFTA is already open and fair, but improvements to the agreement are possible. The three NAFTA parties agreed to some improvements as part of the Trans-Pacific Partnership (TPP) agreement that could be incorporated into a NAFTA update. In particular, TPP would have updated rules on sanitary and phytosanitary (SPS) measures, which have created major trade problems in some markets. U.S.-initiated trade restrictions often backfire on U.S. agricultural exports, so the wheat industry supports maintaining open markets for all parties.

Growing Competition

Mexican wheat buyers used to rely exclusively on NAFTA suppliers. After a price shock, Mexico lifted its non-NAFTA wheat import tariff and wheat from other origins began to trickle in. From the first single boat carrying French wheat in 2010, non-NAFTA imports became a quarter of all Mexico’s wheat imports by 2015. The United States has the geographical advantage, but if Mexico encourages purchasing from other origins because of political pressure or a new agreement with impediments to U.S. wheat imports, it has plenty of supply alternatives, ultimately harmful to U.S. wheat growers.

U.S. Wheat Farmers Depend on Free Access to a Growing Mexican Market

The data for this map is based on Mexico’s market ranking for the primary class of wheat grown in that state in the 2015/16 marketing year. Most wheat states’ farmers rely on Mexico as their number one market.

Withdrawal is a Terrible Option

Put simply, a withdrawal from NAFTA or a different agreement with new trade barriers could be disastrous for the wheat industry. If the new agreement results in tariffs or non-tariff measures on U.S. wheat again, transaction costs would go up and U.S. competitiveness would go down. The fallout of losing a significant share of the Mexican market would be felt by thousands of American farmers while prices are at extreme lows. These farmers would be forced to sell into less valuable markets or produce less wheat if trade barriers are restored after major changes to NAFTA.

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