The Mexican swine industry

The swine industry in Mexico is in the midst of a critical period. Historically, swine producers in Mexico have had to contend with such competitive disadvantages as the lack of an infrastructure, the need to import grain from the United States, and the presence of hog cholera. More recently, the Mexican industry has had to adjust to the NAFTA agreement and massive currency devaluation. Mexican swine practitioners are trying to advise their clientele so that they can remain competitive and continue to thrive. Recently, Dr. Bob Morrison met with Drs. Ernesto Lizarraga, Laura Bautista, and Pablo Moreno to discuss the state of the Mexican swine industry.

How will the devaluation of the Mexican peso affect the Mexican swine industry?

Ernesto: Large integrators will be better able to stay in business, while smaller units may have to get out of the business because the cost of production is rising. In Mexico, anything with 1000 or more sows is considered large. They have the grain and they own the packing plants. The largest units have 12,000 sows. The devaluation of the peso will make feed costs go up because the price of grains, domestic or imported, is set in dollars. Feed prices have already increased by 70%, whereas pork prices have only increased 35%.

Laura: The grain in Mexico is in northwestern and northeastern Mexico — Sonora, Tamaulipas, and the central areas. But the pigs may not necessarily follow the grain: the northeast has been producing grain for a long, long time, but pork production has not grown there at all. Investors there are not at all interested in pork production.

Pablo: Many micro-nutrients that Mexico gets for feed are imported. Also, Mexico doesn't produce enough grain so we have to import grain and soybeans. Because of the devaluation, the cost of feed increased rapidly but the price of marketing pigs did not.

Laura: But the price of pig carcasses is not tied to the US dollar, and these prices vary in different parts of Mexico. Pork prices, at least in my area, have only increased 35%. Because the dollar is so high, Mexico is not importing a lot of pork from the United States — we are consuming a lot of our production. (Figures 1 and 2).

Ernesto: It is very difficult to know the break-even point. It was probably at around $0.35 before the devaluation. The price of raw materials changes every day now, making it difficult to determine when a producer begins to realize a profit.

Laura: We have to match the cost of production in the United States, plus you have to add freight. That is the cost we have in Mexico to compete on an equal basis with the United States. The pigs that we're selling now were fed with cheaper feed before the devaluation. We are just starting to get the numbers from the pigs that have been on the farm since the devaluation. It will be 3–4 more months before we know what our cost of production is now.

What did Mexican producers do to survive the last devaluation?

Laura: The philosophy is, "buy now — tomorrow will be twice the price."

Ernesto: Right now, agribusiness is accomplished on a cash-only basis — no credit. Banks are not lending money.

Pablo: The producers will have to negotiate their loans with the banks because the interest went up to 95%! They will need to pay immediately or increase the terms so that they can handle their payments. At present, the interest rates have dropped down to 60%.

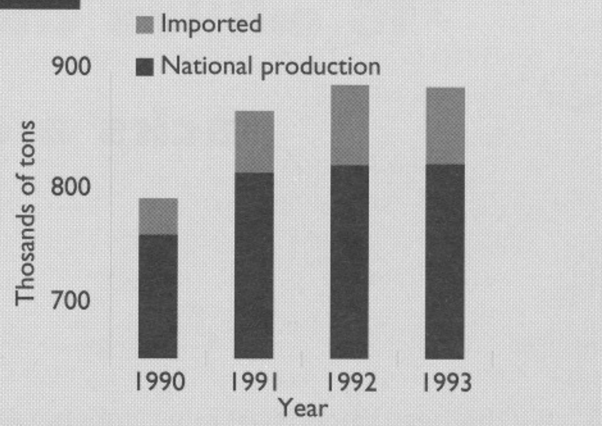
Laura: But the interest can go up tomorrow. It all depends on the devaluation and on the stock market.

Who will make money on the peso devaluation?

Laura: Anyone with debt will be losing money.

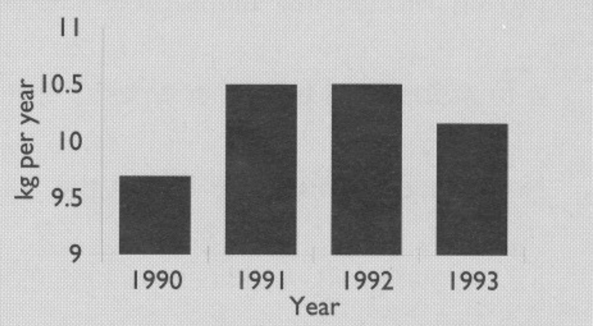
Ernesto: The ones who have credit dollars and are selling all their products in dollars are the ones who will be making money. You

Figure 1



Annual Mexican consumption of pork, 1990–1993.

Figure 2



Mexican per-capita consumption of pork, 1990–1993 will buy your raw materials in dollars and you will sell your product in dollars. This would mainly be represented by the industrial sector in Mexico. To a certain extent, the agribusiness sector is operating on a cash basis. In Sonora right now, 30% of production is being exported to Japan. We buy 100% of our raw materials in dollars, but sell only 30% of our pork in dollars. Depending upon how the industry expands, we may be able to increase our exports to Japan. If the United States market doesn't open up for us, we will have to increase those exports to Japan, because we're in a different market. In Mexico, the pig market pays around 30% for lean carcass value and the rest is by weight. There are two different markets, one for fat pigs and one for lean pigs.

Laura: Right now, you can do relatively well at market with fat pigs, because most of the slaughter houses pay you for live weight.

Pablo: Mexico is having a difficult time and so, therefore, is the swine industry. The only way to stay in business is to be more efficient. One strategy would be to make good decisions regarding the cost:benefit at the farm. For example, if a producer had a lot of feed wastage, s/he would need to evaluate it against the cost of purchasing new feeders or improving the current ones.

Laura: I think exportation to Japan is going to increase because artificial insemination (AI) is becoming very popular in Mexico. The producers in the northern regions have an AI center, and the genetics have improved a lot. The packing plants tell them what weights they need so they can have the weights of the cuts they're exporting.

Ernesto: The economic program of the new president calls for salaries to increase and for inflation to stay below 10%. If that happens, the demand for pork will increase. Pork producers in Mexico and the United States who are producing pork at below $0.77 per kg ($0.35 per lb) will have a good market in Mexico.

Laura: But that is unusual. It depends on better genetics, nutrition and management, and new construction. The average cost of production for typical farms was probably more like $1.30 per kilo ($.60 per lb) before the devaluation of the peso. In the northwest, the price of pork was lower than any other part of the country. The closer you are to Mexico City, the higher the price of pork, because there is very little pork production and rather high consumption in that area. But that will probably change, because two of the largest integrators are now set up in the southeastern peninsula. There are 15,000 sows there, but that should soon double to 30,000 sows. That will hurt the producers who were there before — it will flood the market and reduce pork prices in that region.

Pablo: In my area, you can find units ranging from 15–20 sows to units with 4000 sows. The producers that have debts with the bank are in a critical situation. A small producer of mine with 200 sows is working with his own capital, so he's doing well.

Laura: Because the interest rate is an adjustable rate, the more you owe, the more risk you have of foreclosure.

Pablo: The interest rate went up overnight. The only thing producers can do is work it out with the bank to get longer terms so that the payments will be kept the same, or if they have money, paying off the total debt.

Ernesto: The credit structure is very bad. If you do cash-flow analysis, there is no pork business that can pay those interest rates now.

Pablo: Some producers are borrowing from American banks and American companies. They are less affected by this.

Ernesto: Imports of pork to Mexico will be increasing in the next few years because of the NAFTA agreement, which calls for a duty of 0% by the year 2003. Right now the duty is 16%, but will decrease 2% each year until the year 2003. The tariff of 16% on every pig imported into Mexico goes to the Mexican government. Subsidies will also be disappearing within the next 6 years. Currently, the grain growers are receiving subsidies, and they sell grain to the pork producers. Pork producers have a subsidy on freight — if I buy grain from a grain producer and have to transport it to my unit, the government will subsidize the freight. But within 5 years, this subsidy will be phased out. Mexico will import more pork — it is cheaper to produce it out of Mexico.

Right now the Mexican government is in a very difficult position. They can trade with the United States and Canada, but the benefits will not accrue to the pork industry. It is other industries that are benefiting from NAFTA. If they shut the border to foreign pork, they must invest a lot of money internally to encourage the growth of the Mexican swine industry. If the United States government doesn't allow Mexico to export pork into the United States, Mexico will probably simply give up on its pork industry.

Laura: Animal production has really been sacrificed by the NAFTA agreement. If the Mexican government has to choose between NAFTA and the pork industry, it will choose NAFTA. Agriculture doesn't have that strong an influence with government in Mexico.

Ernesto: The past president of the pork producers council in Mexico was able to make some changes to the industry — he was able to wake up producers to the need to be more global, more competitive to stay in the market. He was part of the NAFTA negotiations. The producers' association needs to be more aggressive with the government to make more regulations that work to keep us in the market. Within the last 2–3 years, there has been more lobbying of the government by the pork industry in Mexico.

What is the status of such diseases as PRRS, pseudorabies, and hog cholera?

Laura: Because of PRRS, there is a ban on pork from the United States. Whether they will lift the ban depends upon the pressure from the United States. Once when they closed the border because of PRRS, it lasted only 2 weeks. I don't think they'll be able to set a sanitary barrier against importation of pork.

Pablo: The only thing they're doing with the ban is making diagnostics and vaccination for PRRS unavailable for Mexican producers and practitioners. There is no place to send samples, no place to confirm a diagnosis.

Ernesto: If you wanted to find out whether PRRS was in Mexico, you could do a national survey.

Laura: As veterinarians, we want to find it if it's there, but there are other factors over which we have no control.

Ernesto: In the northwestern portions of Mexico—Sonora and Chihuahua—USDA and Mexican authorities have been attempting to get the Commission to declare this area hog cholera-free so that we can, through NAFTA, begin to export pork to the southern California region. The southwestern California market represents 20 million people, whom we can't yet export to.

Laura: Under the General Agreement on Tariffs and Trade (GATT), the entire country doesn't have to be free, just certain areas. They're trying to do the same thing with NAFTA, which currently requires that a whole country be free of disease in order to export to the United States. The eradication of hog cholera in our state was paid for by the pork producers — they were the ones in charge of paying for all the quarantine stations and everything. The producers are very unified in eradication efforts. The authorities from Canada and the United States are coming in to see if there is a chance to declare those regions free of hog cholera and pseudorabies. We don't have brucellosis in that region. We have some respiratory problems, *Actinobaccillus pleuropneumoniae*, *Mycoplasma hyopneumoniae,* enzootic pneumonia, *Haemophilus parasuis*, ileitis, and *Salmonella*. Our diagnostic system is not as good as that in the United States, so some diseases we can't differentiate.

Pablo: In the central part, we have PRV, hog cholera, and blue-eye disease (paramyxovirus). The eradication campaign is working well. Guanajuato State is also working on eradicating PRV. Actually, I do have my doubts about the non-existence of PRRS in Mexico, because of the massive importation of swine from the United States in the past few years. But as I said before, there is no way to confirm outbreaks by serology or virus isolation.

What is happening to the swine veterinary profession in Mexico?

Laura: In Mexico, there are 32 veterinary schools for a population of around 80 million — that's a lot more than in the United States. Class sizes are very big. This means that there have been a lot of veterinarians coming out of school. There are not a lot of students going into veterinary medicine anymore, because salaries for veterinarians are rather low and because there is not enough work. You end up doing a lot of things you'd rather not do — working in the breeding and gestating area instead of being a consultant.

Ernesto: Personal achievement and career management allows you to work your way into the upper tiers of the profession. You have to constantly explore new ideas and technologies and pay attention to the global market.

Laura: It all depends on what you want to be. The quality of education has been dropping in Mexico. Teachers in Mexico are very poorly paid.

Pablo: Universities cannot count on enough funds for research. Therefore, well-qualified researchers emigrate to another country, and this damages the development of new veterinarians.

Laura: In our area, producers perceive pork production as a business and have a different attitude toward veterinary consultants than those who treat pork production as a weekend hobby.

Pablo: In my area, people do not value the services of external consultants. Veterinarians have to work harder to convince producers that their work and knowledge have value and can have an impact on their operations. We can help ourselves by investing in training, annual meetings, etc., so that we will always stay up to date.

Laura: There is a gap in age among veterinary consultants. There are no young people going in. With integration, units will be hiring their own veterinarians. Only four people applied to the veterinary school in Guadalajara last year. The government is doing a study of the different veterinary schools — where they are located, how many people they can service; they will be reducing the number and increasing the quality of schools of veterinary medicine. There is a shortage of good people teaching, which means that vet students emerge from school underprepared. If you hire a recent graduate, you have to plan to train that person, who often will choose after a year to work with some other species.

Ernesto: Companies plan to train their employees; it's part of what they do.

Is there a grassroots movement among swine practitioners in Mexico to improve veterinary education?

Laura: The Mexican Association of Swine Practitioners is not extremely receptive to input from its membership on this issue. We might be able to make an impact, but it would be so time consuming, it interferes with our work. No one has the time to devote two years to take on the Presidency of the Mexican Association of Swine Practitioners. Perhaps we could chip in to fund a paid position as President for the Mexican Association of Swine Practitioners if it would help to make a change.

Pablo: I believe that the Mexican Association of Swine Practitioners should foster a very aggressive working relationship with the AASP to improve the image of the veterinarian in the Mexican pork industry.

In closing

The strengths of the Mexican swine industry relative to the United States include:

- lower labor and land costs;
- easier permitting; and
- cooperative pork producer networks.

If Mexican swine producers can deal with the challenges presented by the high cost of building materials and equipment, the need to import grain, and a poor transportation, utilities, and education infrastructure, the industry can continue to thrive.