PCA
Portland Cement Association
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Assessment of U.S.-Mexican Trade Agreement on Cement

The U.S. and Mexican governments have reached an agreement regarding the level of U.S. tariffs on Mexican portland cement imports into the United States. This Flash Report is an effort to provide the latest available information about the agreement and its potential impact on cement supply in the U.S.

The agreement is expected to go into effect in the second quarter of 2006. The agreement will reduce the tariff on portland cement imports originating from Mexico from $26 per ton to $3 per ton and introduce regional quotas. The total volume of Mexican imports is capped at 3.0 million metric tons for the first year of the agreement. In the second and third years of the agreement, the first year regional quotas will be increased or decreased by the percent change in apparent consumption of cement for the most recent 12-month period for which data is available compared to the previous 12 months. The maximum adjustment is plus or minus 4.5%. The government agreement allocates Mexican imports among eight U.S. regions. Based on PCA projections for market growth, the table on page 2 provides an estimate of the permitted import levels by region.

The agreement contains two other provisions: (1) under certain conditions, the quotas can be increased by 200,000 tons for natural disaster rebuilding, and (2) both governments reaffirmed their commitment to open trade and will fully investigate any specific allegation of a market access barrier or practice that prevents cement from entering either country. Furthermore, both governments with the support of their respective industries have agreed to establish a North American Cement Committee to facilitate trade between the countries. The agreement will expire in three years, at which time all duties and quotas would be completely eliminated for every Mexican cement producer that has not breached the quotas.

Point 1: The new trade agreement could increase 2006-2008 United States cement supply by nearly 1%.

The new trade agreement allows Mexican cement producers to initially export up to 3.0 million metric tons of portland cement annually at a tariff rate of $3 per ton. U.S. imports from Mexico were running at a 2.0 million metric ton seasonally adjusted annual rate (SAAR) through November of 2005. At quota maximums, this implies an incremental increase of one million tons of additional import supply into the United States market compared to 2005 levels. United States' cement consumption was running at a 120 million metric ton SAAR and total imports at a 33 million metric ton SAAR through November 2005. The higher level of Mexican imports represents a 3% increase in total import volume and nearly a 1% total increase in U.S. cement supply.

Mexican Import Agreement: Estimated Volumes*

	2005	2006	2007	2008
Portland Cement Consumption	120,693	125,138	128,512	131,709
Market Growth (%)	-----	3.7%	2.7%	2.5%
Total Mexican Imports	2,000	3,000	3,110	3,194
Hurricane Relief	-----	0	0	0
Mexican Quota**	-----	3,000	3,110	3,194
Total Mexican Quota		3,000	3,110	3,194
- California	-----	150	156	160
- Arizona	-----	1,250	1,296	1,331
- New Mexico/El Paso	-----	725	752	772
- Rest of Texas	-----	215	223	229
- Louisiana	-----	280	290	298
- Mississippi/Alabama	-----	55	57	59
- Florida	-----	200	207	213
- Rest of United States	-----	125	130	133

Source: NAHB, Nation's Building News

* Units of thousand tons. 2007-2008 Volumes Estimated from PCA Market Growth Projections.

**Mexican quota is adjusted each year depending upon market growth in the preceding year to a maximum change of plus/minus 4.5%

Point 2: PCA expects sustained moderate growth in United States cement consumption during the next three years.

Strong demand conditions have characterized the U.S. cement market during the past two years resulting in a record level of cement consumption in 2005. Gains in nonresidential and public construction activity are expected to outweigh modest declines in residential construction in the years ahead. Rebuilding activity in New Orleans could also add to future cement demand, although the extent of this activity is still unknown. Combined, PCA believes these factors will result in moderate annual growth in U.S. cement consumption during the next three years.

Point 3: Incremental increases in Mexican imports will supply the southern U.S. markets.

States in the southern regions have experienced the strongest demographic, economic, and cement consumption growth in the United States during the past few years. The potential incremental increase in Mexican import tonnage will be allocated among eight regions in the United States. Areas with tight market conditions have received a higher allocation than other regions.

These markets are also characterized by relative ease of logistical access. Therefore, the increased imports from Mexico will be more significant in southern regions.

Point 4: While the new trade agreement will help, tight supply conditions may persist in the future.

Tight supply conditions have materialized in certain regional markets during the past two years. Conservative estimates of cement market growth during the next three years result in at least a 10-million ton increase in consumption over 2005 levels. The potential increase in Mexican imports of one million metric tons will improve supply conditions, but by itself will not be enough to result in an elimination of concerns regarding future tight market conditions.

Point 5: In addition to increased imports, domestic investment in plant expansion will help meet market demand

Investment in U.S. cement production facilities remains a major factor in meeting longer term market demand. To this end domestic producers have announced plans to invest nearly $3 billion through 2009. If these plans come to fruition, kiln capacity will increase by 14.66 million metric tons – roughly a 15.5% increase in existing capacity. Long term economic growth, however, will result in additional growth in cement consumption resulting in the need for continued investment. Rigidities in local zoning and permitting remain the key hurdle limiting expansion of U.S. cement production capacity.

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