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Mexico

Coffee

Annual - Revised

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Report Highlights:

Mexico's coffee production for 1998/99 (Oct-Sept) has increased by 7.7 percent from the previous estimate due mainly to good weather before and during the harvest, in addition to state and federal government assistance programs. Production for 1999/2000 is expected to remain unchanged from our previous estimate provided favorable weather conditions prevail. With continued state and federal government assistance programs we forecast an increase in production of 1.9 percent for 2000/01.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook: The outlook for the Mexican economy continues to brighten after the uncertainty caused by the economic crises in Russia, Asia, and Brazil during the latter part of 1998 and early 1999. The nearly tripling of world oil prices combined with the Government of Mexico's (GOM) conservative fiscal and monetary policies have led to considerable strength in the Mexican economy. Estimated at 3.5 percent, GDP growth for 1999 surpassed earlier expectations, and the Bank of Mexico made believers out of skeptical market analysts by finishing 1999 below its 13 percent inflation target for the year, with an estimated 12.3 percent inflation rate.

That optimism is substantiated by the trade data. Mexico's exports increased 16 percent during the first eleven months of 1999 compared to the same period in 1998. Meanwhile, imports increased 12.9 percent and the trade deficit decreased by 36.7 percent during the same period. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. The United States remains by far the most important market for Mexico's exports (88 percent in 1998) and the most important source of imports (74 percent).

Looking forward to 2000, the government projects that the current account deficit will be approximately US\$15.4 billion, a figure that would constitute a manageable 3.1 percent of GDP, but that's an increase from the 2.8 percent estimated for 1999. The GOM official inflation target for 2000 is 10.0 percent. The yearly average exchange rate is forecast at 10.4 pesos/US\$, which would be a modest depreciation from the average rate of 9.6 that prevailed in 1999. The GOM is targeting a fiscal deficit of only 1.0 percent of GDP, a decrease from the 1.25 percent deficit estimated for 1999.

Achieving these projections depends in a large part on strong oil prices. The higher than expected GDP growth rate in 1999 and the strength of the trade account are largely attributable to the rise in oil prices. Moreover, the GOM receives nearly one-third of its revenues from oil. The GOM used US\$16.0 per barrel to prepare the 2000 budget, a very reasonable target price given that the agreement to limit supply by the main exporting countries is likely to be extended for a good part of 2000. The price of the Mexican crude closed at US\$22.32 in December 1999. (NOTE: Mexican crude oil is a lower grade than North Brent crude.)

These reasons for optimism notwithstanding, it's important to note that the Mexican market tends to overreact to good or bad news and could be adversely affected by external or internal shocks. In particular, the Mexican economy is susceptible to U.S. economic conditions. A significant downturn in the U.S. economy, a large sustained correction in the U.S. equities market, or a pronounced increase in U.S. interest rates, could all trigger a downturn in Mexico. Internal politics also could present a threat to the economy. Mexico will be holding elections in July and the country has a history of economic turmoil in the year of or following elections.

Coffee Situation and Outlook: Mexican coffee production for 1999/2000 (Oct-Sept) is expected to remain unchanged from our previous estimate provided favorable weather prevails and government assistance to producers is continued through state and federal support programs. At the same time, the estimate of 1998/99 production has been revised upward by 7.7 percent as

a result of favorable weather and continued government assistance programs as indicated through recent reports from producer associations and government data.

The financial support programs continued by the Government of Mexico will aid small growers to improve cultural practices and improve overall production in the medium and long term through improved varieties which are more productive and more resistant to insects and diseases. We are, therefore, forecasting for 2000/01 a slight increase of 1.9 percent from the previous year's estimate.

Exports for 1998/99 have been revised upward 11.1 percent from our previous estimate due to increased supplies, coupled with continued international demand. Much for the same reason, for 2000/01, we are forecasting an increase of 2.3 percent over the previous year's export estimate.

Ending stocks are expected to remain at zero level due to continued exports and domestic consumption. Nevertheless, according to industry sources small amounts of stocks do exist in the hands of soluble coffee producers who do not publicly release this information.

SECTION II. STATISTICAL TABLES**PS&D, Coffee, Green**

(1000 60-Kg. Bags) (Million Trees)

PSD Table						
Country:	Mexico					
Commodity:	Coffee, Green					
	1999		2000		2001	
	Old	New	Old	New	Old	New
Market Year Begin	10/1998		10/1999		10/2000	
Area Planted	700	700	730	730	0	730
Area Harvested	650	650	700	700	0	700
Bearing Trees	675	675	700	700	0	700
Non-Bearing Trees	180	180	180	180	0	180
TOTAL Tree Population	855	855	880	880	0	880
Beginning Stocks	0	0	0	0	0	0
Arabica Production	4500	4860	5000	5000	0	5100
Robusta Production	150	150	200	200	0	200
Other Production	0	0	0	0	0	0
TOTAL Production	4650	5010	5200	5200	0	5300
Bean Imports	100	100	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	20	20	0	0	0	0
TOTAL Imports	120	120	0	0	0	0
TOTAL SUPPLY	4770	5130	5200	5200	0	5300
Bean Exports	3600	4000	4000	4000	0	4100
Roast & Ground Exports	20	20	20	20	0	20
Soluble Exports	150	150	180	180	0	180
TOTAL Exports	3770	4170	4200	4200	0	4300
Rst, Ground Dom. Consum	495	455	500	500	0	450
Soluble Dom. Consum.	505	505	500	500	0	550
TOTAL Dom. Consum.	1000	960	1000	1000	0	1000
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	4770	5130	5200	5200	0	5300

Coffee Bean Trade Matrix

<i>COFFEE BEAN, GREEN</i>			<i>UNITS: Metric Tons</i>		
EXPORTS TO:			IMPORTS FROM:		
<i>Destination</i>	1998	1999	<i>Origin</i>	1998	1999
U.S.	73,170	86,638	U.S.	1,254	400
Other			Other		
Switzerland	11,979	14,741	Brazil	0	1,795
Germany	3,819	3,702	Ecuador	0	574
Netherlands	2,471	2,794			
France	2,678	2,453			
Total of Others	20,947	23,690	Total of Others	0	2,369
Others Not Listed	5,123	7,304	Others Not Listed	23	26
Grand Total	99,240	117,632	Grand Total	1,277	2,795

Source: 1993,2000 Global Trade Information Services, Inc.
World Trade Atlas, Mexico Edition, December 1999
Figures are in green bean equivalents

Table I
Mexican Coffee Exports
Calendar Year 1999
(Kgs./US Dlls.)

Tariff No.	Commodity and Country of Destination	Volume	Value
0901.11	Coffee, not roasted, parchment, non decaf		
	Belgium	293,250	792,750
	Denmark	695,175	1,905,929
	France	2,452,980	6,522,877
	Germany	3,702,731	9,884,504
	Great Britain	345,000	930,800
	Italy	226,500	600,610
	Japan	774,397	2,068,511
	Netherlands	2,738,526	7,246,800
	Switzerland	14,715,560	38,407,800
	Virgin Islands	2,525,400	6,353,228
	U.S.A.	73,037,465	191,993,200
	Others	2,329,550	6,111,191
	Total	103,836,534	272,818,200
0901.12	Coffee, not roasted, green, decaf		
	U.S.A.	12,908,300	32,566,720
	Others	53,475	125,970
	Total	12,961,775	32,692,690
0901.21	Coffee roasted, non decaf		
	U.S.A.	560,963	2,263,902
	Others	126,135	765,637
	Total	687,098	3,029,539
2101.11	Extracts essences and concentrates of coffee and preparations based on these extracts		
	U.S.A.	1,725,376	9,323,940
	Israel	68,806	189,505
	Great Britain	52,950	240,995
	Others	365,956	2,140,440
	Total	2,213,088	11,894,880
2101.12	Extracts essences and concentrates of decaffeinated coffee, and preparations based on these extracts		
	U.S.A.	216,704	1,568,729
	Others	125,257	918,967
	Total	341,961	2,487,696

Table II
Mexican Coffee Imports
Calendar Year 1999
(Kgs./US Dlls.)

Tariff No.	Commodity and Country of Origin	Volume	Value
0901.11.01	Coffee, not roasted, parchment, non decaf		
	U.S.A.	69,000	106,102
	Others	2,369,139	3,455,787
	Total	2,438,139	3,561,889
0901.21.01	Coffee roasted, non decaf		
	U.S.A.	204,763	1,099,470
	Italy	10,920	160,240
	Colombia	5,704	28,003
	Others	4,793	42,860
	Total	226,180	1,330,573
0901.22.01	Coffee, roasted, decaffeinated		
	U.S.A.	126,486	687,245
	Others	4,948	50,163
	Total	131,434	737,408
2101.11.01	Extracts essences and concentrates of coffee, and preparations based thereof		
	U.S.A.	2,499,655	155,520
	Others	985,134	62,081
	Total	3,484,789	217,601
2101.12.01	Extracts essences and concentrates of decaf coffee, and preparations based on these extracts		
	U.S.A.	85,043	349,621
	Others	503,867	2,623,577
	Total	588,910	2,973,198

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

PRODUCTION

It is expected that state and federal government support will continue throughout the current year in the Mexican coffee sector. We are, therefore, forecasting a slight increase for 2000/01 of 1.9 percent over the previous year's estimate. The estimate of Mexican coffee production for 1999/00 (Oct-Sept) is expected to remain unchanged from our previous estimate provided good weather prevails.

For 1998/99, our previous production estimate is raised by 7.7 percent to 5.0 million bags based on more current information from reliable producer associations and government sources, reflecting higher than expected output from Chiapas and Veracruz, the first and second leading coffee producing areas.

Crop Area

Planted area for 1999/00 is estimated to remain unchanged from the previous estimate but is projected to increase by 4.2 percent from the 1998/99 estimate due to GOM assistance programs to increase production and exports to satisfy continued international demand.

Yields continue to vary widely in Mexico. For 1998/99, yields appear to be up due to favorable weather and better cultivation practices implemented by medium and large-scale producers. Tree density in Mexico is estimated at 1,350 trees/hectare.

CONSUMPTION

Total domestic coffee consumption for 1998/99 is revised downward from our previous estimate due to high domestic retail prices and consumers' substitution with other beverages.

Consumption in 1999/00 is projected to remain unchanged from our previous estimate due to continued rising prices and increased substitution. Much for the same reason, the consumption forecast for 2000/01 remains unchanged from the previous year's estimate.

Domestic prices for roasted and instant coffee are not controlled by the GOM, and coffee is not considered to be part of the official market basket of food staples. Therefore, domestic coffee is becoming a luxury item as prices are currently aligned to international prices.

STOCKS

Ending stocks are expected to remain at zero level due to continued exports and domestic consumption. Nevertheless, according to industry sources small amounts of stocks do exist in the hands of soluble coffee producers who do not publicly release this information.

TRADE

Due to increased supplies, we are forecasting exports to increase for 2000/01 by 2.3 percent over the previous year's estimate. For 1999/00, exports are estimated to remain unchanged from the previous estimate as production is not expected to increase and allow for increased exports. It

is, however, projected to increase by 4.2 percent from the previous year's estimate due to GOM assistance programs to increase production and exports to satisfy continued international demand and unchanging domestic use. These are the same factors which have resulted in an upward revision of the 1998/99 export estimate.

In the face of coffee prices dropping by 40 and 30 percent for robustas and arabicas respectively, since December 1999, the Mexican Coffee Council (CMC) is entertaining the thought, of supporting other Latin American coffee producing nations in the implementation of stock retention schemes to further increase prices. Mexico appears to agree on the need to coordinate policy in the face of prices which for many Mexican producers are insufficient to cover production costs.

Most of Mexico's coffee exports continue to be washed arabicas. Over 85 percent of total exports go to the U.S. and Japanese markets. Foreign exchange earnings for calendar 2000 are forecast at US\$500-600 million.

Tariffs

Mexican coffee exporters do not pay export duties, nor are export permits required.