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Mexico

Asparagus

Annual

2000

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Report Highlights:

Mexican asparagus production during 2000 is forecast to surpass slightly that of the most recent estimates for 1999. Exports are forecast to hold steady compared to the 1999 revised estimate, but well above the historic average. Ample foreign supplies are expected to keep prices in check and limit expansion of area planted in Mexico. Nevertheless, favorable weather and adequate water supplies are expected to result in increased yields.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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TABLE OF CONTENTS

SECTION I. SITUATION AND OUTLOOK	Page 1 of 6
THE ECONOMY	Page 1 of 6
ASPARAGUS SITUATION AND OUTLOOK	Page 2 of 6
PRODUCTION	Page 2 of 6
COST OF PRODUCTION	Page 3 of 6
CONSUMPTION	Page 3 of 6
TRADE	Page 4 of 6
POLICY	Page 5 of 6
SECTION II. STATISTICAL TABLES	Page 6 of 6
PS&D FRESH ASPARAGUS	Page 6 of 6
TRADE MATRIX	Page 6 of 6

SECTION I. SITUATION AND OUTLOOK

THE ECONOMY

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.

(By the Embassy's Economics Section)

ASPARAGUS SITUATION AND OUTLOOK

Mexican asparagus production for MY 2000 is forecast to be 62,000 MT, up slightly from the previous year's revised estimate. It should be noted, however, that the planted area and exports for 1999 have been revised upward significantly due to new plantings coming in the second or third production cycle and favorable weather. The United States continues to be the main market for more than 90 percent of the Mexican fresh asparagus production. The initial export forecast for MY 2000 is 55,000 MT, approximately the same as the revised estimate for 1999, but significantly greater than exports in recent years due to stronger international demand and a large proposed advertising campaign in the United States which is designed to promote consumption.

PRODUCTION

The total Mexican asparagus production forecast for MY 2000 is 62,000 MT, or about 20.0 percent more than the revised MY 1999 production. This increase is attributable to new plantings reaching maturity, higher yields, and more producers having installed more efficient irrigation systems. Mexican producers currently are striving to bring the quality of their product up to the international market's standards. The relatively low international prices, however, provide little economic incentive to accomplish that goal. Despite the expected increased international demand, the area planted and harvested are forecast to remain at similar levels observed in 1999, but increased yields from the same area will be sufficient to meet the demand.

The estimates for area planted, area harvested and production for MY 1998 have been revised upwards based on final official Mexican data. Preliminary data suggest that nationwide yields increased substantially from 3.1 MT/Ha to 3.9 MT/Ha average in MY 1999. Although parts of Mexico experienced dry weather in 1999, asparagus production was not affected because most of the major production areas have access to ample water supplies. Rainfall thus far in 2000 has been above average. (Mexico's rainy season normally starts in June and last through October.) In fact, some areas have received too much rain. The Guanajuato area recently experience heavy rains that slowed the asparagus harvest, but not enough to adversely impact the forecast production.

Usually more than 95 percent of Mexico's asparagus is produced in Sonora, Guanajuato, and Baja California. Analysis of each of these principal growing regions follows below. The rest of the production comes from Nuevo Leon, Coahuila, and Baja California Sur. Mexico produces two asparagus crops. The major crop is harvested in Baja California and Sonora from late December through early April. The second, smaller crop is harvested from late June through September in the Bajio region of Guanajuato. The predominant varieties are green asparagus from seed originating in California. A very small crop of white asparagus is still produced in Guanajuato, but the market trends indicate that will disappear by the mid-season due to the increased demand for green varieties.

Sonora: FAS/Mexico has increased the production estimate for Sonora for MY 1999 based on industry sources who stated that yields are greater than initially estimated. Sonoran producers are installing more efficient irrigation systems that help keep their costs in check. Currently, more than sixty percent of the area devoted to asparagus production in Sonora has adopted drip-

irrigation methods. Costs of production, however, increase annually because growers must increase their wells' depths by approximately one meter per year to maintain adequate water supplies. Likewise for MY 2000, Sonora's production is forecast to slightly surpass the 1999 levels, primarily because the producers agreed among themselves to maintain the same planted area.

Guanajuato: Sources indicate that Guanajuato's MY 2000 production is expected to be equal to or slightly greater than that of MY 1999. Area planted would barely increase due to the fields previously planted to white asparagus being converted to green varieties. Yields are expected to be slightly above average for MY 2000 despite the variations in weather. Guanajuato, like Sonora, is suffering from a falling water table that is used to supply underground wells. This increases producers' pumping costs. Currently, ample rains have relieved producers from relying so much on their wells. Another positive factor is producers do not expect pests and diseases to be a problem in the region. On the other hand, more new industries, such as automobiles, steel, and "maquiladoras" near Guanajuato have increased the competition for laborers and drove up wages.

Baja California: According to official sources, asparagus production in this region is expensive; therefore, farmers are switching to more profitable crops such as sorghum and forages. MY 2000 area planted and total production are both forecast to remain basically the same as in MY 1999. Official sources, however, stated yields are expected to increase slightly compared to 1999 because of favorable weather and ample water supplies.

COST OF PRODUCTION

The overall cost of Mexican asparagus production has increased due to increased costs of imported inputs and the increased costs resulting from falling water tables as mentioned earlier. Many producers buy U.S. "F1" generation seeds which cost approximately US\$370 per pound. Seed prices have increased over the past few years due to increased demand as worldwide production has risen. According to industry sources, the cost of establishing a new asparagus planting is between US\$5000 and US\$5,500 per hectare. The cost of field maintenance thereafter is US\$2,600 to US\$3,300 per hectare.

CONSUMPTION

Mexican domestic consumption traditionally is a residual market, with asparagus grown mainly for the fresh export market. Asparagus that does not meet export standards goes to the domestic fresh and processing markets. Mexico does not produce asparagus specifically for the processing industry. Domestic consumption of fresh asparagus during MY 2000 is forecast at 7,100 MT or 41 percent less than the previous year's first estimate. This significant drop in consumption is mainly due to the producers' preferences to increase exports of fresh asparagus to the United States and other potential markets. The consumption estimates for MY 1998 and 1999 have been revised downward based on newly available official data.

Asparagus consumption faces competition from other fresh vegetables, primarily broccoli, zucchini, and carrots. Restaurants and hotels are the main fresh asparagus buyers; Mexican

households generally consume very little. Mexican growers indicate that they want, but have yet to organize, effective market promotions.

Industrial sources indicated that a generic campaign to promote the consumption of asparagus in the United States is under development. Producers and representatives from Peru, Sonora, Michigan and Washington State have attended a series of three negotiations to implement such a large campaign. A fourth round table discussion of the plan is to be held in July 2000.

TRADE

The United States remains Mexico's largest export market for asparagus. According to official sources, over 90 percent of the national production is exported to the United States, while the rest goes to Japan and the European Union.

Japanese demand for Mexican asparagus has reportedly remained steady, despite the financial turmoil that rocked many Asian economies in 1998. Overall demand in both the EU and Japan currently is strong and expected to grow in 2000.

Mexican trade data show MY 1999 asparagus exports at 55,000 MT, which is 57 percent greater than those of MY 1998. This increase is due mostly to stronger international demand. Official and private sources forecast MY 2000 exports to be similar to the previous year. International demand is expected to remain strong. Farmers that once were enticed to increase area planted and utilize more efficient irrigation systems, however, currently are not happy with the relatively low prices and have decided to limit area planted.

Mexico's winter exports to the United States peak between the last week of December to the end of January, when U.S. supplies are low. Prices are traditionally high during this period but with the recent entrance of the Peruvian production in the same market window has put pressure on the international prices. In the past, most of the Peruvian production was used for processing, but more recently is has begun to go into the fresh market. Mexico's exports to the United States continue until March when production begins in northern California's Stockton/Delta region. Mexico also exports during the summer months — primarily from the last week of June to the end of September. Prices, however, are lower those they received during the winter and expected to maintain same levels.

According to industry sources, the average international price for asparagus during 1999 was approximately US\$33.00 per 30-pound box (US\$2.40/kg). For MY 2000, international prices are predicted slightly lower than previous year beginning at US\$30.00 per 30-pound box (US\$2.18/kg).

POLICY

Under NAFTA, asparagus (HS 0709.20.10 and 0709.20.90) imports from the United States are subject to the following duties:

MEXICAN SEASONAL TARIFFS

FOR ASPARAGUS IMPORTED FROM THE U.S. DURING 2000

Season	Current Tariff	Tariff Phase-Out Year (Jan 1)
Jan 1 - Jun 30	3.0%	2003
Jul 1 - Dec 31	0.0%	1998
Sep 15 - Nov 15 (by air only)	Free	1994
Jan 1 - Dec 31 (white asparagus only)	Free	1994

Imports from Chile enter Mexico duty free.

SECTION II. STATISTICAL TABLES

PS&D FRESH ASPARAGUS

PSD Table						
Country	Mexico					
Commodity	Fresh Asparagus		(HA)(MT)			
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	14000	14129	16000	16000	0	16000
Area Harvested	13000	13070	14600	15400	0	15500
TOTAL Production	47000	41240	50000	61600	0	62000
Imports, Fresh	53	53	50	126	0	100
TOTAL SUPPLY	47053	41293	50050	61726	0	62100
Exports, Fresh	35000	34974	38000	55032	0	55000
Domestic Fresh Market	12053	6319	12050	6694	0	7100
For Processing	0	0	0	0	0	0
TOTAL UTILIZATION	47053	41293	50050	61726	0	62100

TRADE MATRIX

<i>ASPARAGUS</i>		<i>UNITS: METRIC TONS</i>	
<i>EXPORTS FOR 1999 TO:</i>		<i>IMPORTS FOR 1999 FROM:</i>	
<i>U.S.</i>	54,851	<i>U.S.</i>	58
<i>OTHER</i>		<i>OTHER</i>	
<i>UNITED KINGDOM</i>	80	<i>PERU</i>	38
<i>JAPAN</i>	79	<i>CHILE</i>	28
TOTAL OF OTHER	159	TOTAL OF OTHER	66
OTHERS NOT LISTED	22	OTHERS NOT LISTED	2
GRAND TOTAL	55,032	GRAND TOTAL	126

Source: Global Trade Information Services Inc. 1993, 2000. World Trade Atlas, Mexico Edition.