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## Mexico

## Tomatoes and Products

## Annual

## 2000

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### Report Highlights:

**Mexico's total tomato production for MY 2000 is forecast to decrease compared to MY 1999, due to less area planted. This is attributed to oversupplies and lower export prices from last year's production. Exports are also expected to be lower due to supply pressure against the U.S. minimum floor price. Tomato paste production for MY 2001 is forecast to continue low due to high international inventories.**

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Includes PSD changes: Yes  
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## SECTION I. SITUATION AND OUTLOOK

### The Economy

The outlook for the Mexican economy for the remainder of the year 2000 remains bright. Aggregate demand is exceptionally strong and sustaining GDP growth that could average 6.0 percent in 2000. This year's performance will surpass last year's, when GDP rose by 3.7 percent in real terms. The figure for inflation, too, is expected to be lower than the 12.3 percent of 1999 and may decline to about 9.5 percent by the end of the year; the first time the rate will be below 10.0 percent in six years. The Government of Mexico's (GOM) conservative fiscal and monetary policies have helped offset the unusually strong consumer demand and thus prevent the overheating of Mexico's economy. The GOM is conscious of this danger, and is taking steps to ensure that the economy grows at a sustainable rate during the next few years.

Mexico's domestic and foreign trade continues to grow at rates that warrant optimism. Domestic consumption grew by nearly 9.5 percent in real terms during the first half of 2000. Investment rose by about 11.5 percent during this semester relative to the level of a year earlier. This rate could well be sustained during the second half of 2000. Mexico's exports increased about 24.5 percent in nominal terms during the first six months of 2000 relative to those of the same period a year earlier. Imports rose by about 25.0 percent during the same period. In the year that ended in June 2000, Mexico's net international assets increased \$4.2 billion to a total of \$29.6 billion. The result reflected the benefits to Mexico of high oil prices and a robust U.S. economy. The latter's affect on Mexico is overwhelming, given that the United States remains Mexico's most important export market (87 percent in 1999), its most important source of imports (74 percent), and its primary source of foreign short- and long-term capital.

Mexico's current account deficit is projected to be approximately \$19 billion by the end of year 2000. This figure would represent 3.1 percent of expected GDP, 0.2 percentage points higher than the corresponding value in 1999. Forecasters generally agree that inflation, as measured by the consumer price index, may drop to about 9.5 percent by the end of the year. The exchange rate for 2000 is forecast to be around 10.0 pesos/US\$ by the end of the year, which would represent about a five percent depreciation relative to the rate that prevailed in 1999 (9.5). Mexico's fiscal deficit will likely reach approximately 1.0 percent of GDP this year, about the same as last year's.

Continuation of these positive macro-economic indicators into 2001 will depend on how well the GOM responds to internal and external developments during the next several months. Exceptionally strong consumer demand could lead to serious overheating of Mexico's economy, which could cause inflation to rise. The growth that this demand provokes attracts capital inflows and strengthens the peso. This can encourage excessive imports. If undiminished, at some point the current account will weaken and may provoke a correction that could induce a fall in economic growth. The Bank of Mexico is implementing monetary restrictions to prevent such overheating.

The GOM's ability to absorb the effects of a U.S. economic slowdown, and possible fall in oil prices, will also determine whether Mexico will be able to maintain buoyant economic growth in the years to come. A significant downturn in the U.S. economy could cause a substantial fall in U.S. equity prices, which would provoke an increase in U.S. interest rates. The end result could trigger a downturn in Mexico. The expansion of trade with Mexico's non-NAFTA partners could mitigate the effects of a slowdown in the United States.

Mexico's free trade agreement (FTA) with the European Union could initiate robust growth in Mexican exports to Europe without posing a threat to the commercially most important U.S. agricultural exports to Mexico. This is true because Mexico did not make tariff rate concessions to the E.U. on any products for which the E.U. provides export subsidies (grains, meat, dairy, etc.). Its development as an export market may more than offset the likely decline in world oil prices during the next few years, given that oil exports now account for less than 10.0 percent of total Mexican exports. Oil revenues nonetheless remain of great significance to Mexico. They account for nearly 35 percent of government budgetary revenue. The GOM thus has a strong interest in cooperating with the OPEC producers to ensure that the price of oil remains at what they consider an acceptable level. The GOM assumed that Mexico would obtain \$16.0 per barrel for its oil exports when it prepared the fiscal year 2000 budget, but the price of Mexico's oil has averaged about \$24 per barrel during the first six months of 2000.

On July 2, 2000, Mexican voters elected Vicente Fox as their new President. This was a historic event because he is from the National Action Party (PAN by its Spanish initials), not the Institutional Revolutionary Party (PRI by its Spanish initials) which had dominated Mexican politics for over 70 years. He ran on a pro-business, free trade platform, but it is too early to tell as of this writing what economic policies he will implement to support that platform. He took power on December 1, 2000.

### **Tomato Situation and Outlook**

Fresh Mexican tomato production for MY 2000/01 (October/September) is forecast at 1.87 million metric tons (MMT), if good weather prevails. Growers anticipate that exports for MY 2000 will be similar to MY 1999 exports barring any currency or weather problems. According to Mexican trade data, Mexico exported approximately 674,079 MT to the U.S. during MY 1999, compared to 620,734 MT in MY 1998. Exporters indicated that international market forces pushed down tomato prices during the first months of 2000, resulting in less exports than expected. The base price tomato agreement between the U.S. and Mexico has worked well. This agreement will end in October 2001 when both governments, Mexico and the United States, will have to decide what to do next.

Tomato paste production for MY 2001/02 (March/February) is forecast at 31,500 MT, a slight increase compared to MY 2000 production. The international market has high tomato paste inventories and a new player that is producing high levels of tomato paste: China. Therefore Mexican tomato paste exports for MY 2001 are forecast at 7,500 MT. The main markets for Mexican tomato paste are the United States and South America. Although the United States is an important market, the Mexican industry is also exporting paste to Europe.

## SECTION II. STATISTICAL TABLES

## FRESH TOMATO PRODUCTION TABLE

PSD Table						
Country	Mexico					
Commodity	Fresh Tomatoes (HA) (MT)					
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	10/1998		10/1999		10/2000	
Plnt For Fresh Consump	78212	78212	74000	75000	0	68100
Plnt For Processing	6500	6500	5000	5000	0	4400
<b>TOTAL Area Planted</b>	84712	<b>84712</b>	79000	<b>80000</b>	0	<b>72500</b>
Harv. For Fresh Cons.	76712	76512	73000	73900	0	67000
Harv. For Processing	6300	6500	4800	4800	0	4200
<b>TOTAL Area Harvested</b>	83012	<b>83012</b>	77800	<b>78700</b>	0	<b>71200</b>
Fresh Sale Production	2060619	2075619	2060000	2084000	0	1876000
Processing Production	370000	355000	240000	216000	0	210000
<b>TOTAL Production</b>	2430619	<b>2430619</b>	2300000	<b>2300000</b>	0	<b>2086000</b>
<b>TOTAL SUPPLY</b>	2430619	<b>2430619</b>	2300000	<b>2300000</b>	0	<b>2086000</b>

**TOMATO PASTE PRODUCTION TABLE**

PSD Table						
Country	Mexico					
Commodity	Tom. Paste, 28-30% TSS Basis			(MT)(MT, Net Weight)		
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		03/1999		03/2000		03/2001
Deliv. To Processors	370000	355000	240000	190000	0	210000
Beginning Stocks	0	0	0	0	0	0
Production	53000	50700	36000	28500	0	31500
Imports	10000	10693	6000	10000	0	8000
<b>TOTAL SUPPLY</b>	63000	<b>61393</b>	42000	<b>38500</b>	0	<b>39500</b>
Exports	23593	23645	12000	7500	0	7500
Domestic Consumption	39407	37748	30000	31000	0	32000
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	63000	<b>61393</b>	42000	<b>38500</b>	0	<b>39500</b>

**TRADE MATRIXES**

<i>Tomatoes</i>		UNITS: <i>METRIC TONS</i>	
<i>EXPORTS FOR 2000 TO: *</i>		<i>IMPORTS FOR 2000 FROM: *</i>	
<i>U.S.</i>	517,734	<i>U.S.</i>	28,516
<i>OTHER</i>		<i>OTHER</i>	
<i>CANADA</i>	72		0
<i>TOTAL OF OTHER</i>	72	<i>TOTAL OF OTHER</i>	0
<i>OTHERS NOT LISTED</i>	25	<i>OTHERS NOT LISTED</i>	0
<b>GRAND TOTAL</b>	517,831	<b>GRAND TOTAL</b>	28,516

\* January-August 2000

<i>Tomato Paste</i>		UNITS: <i>METRIC TONS</i>	
<i>EXPORTS FOR 2000 TO: *</i>		<i>IMPORTS FOR 2000 FROM: *</i>	
<i>U.S.</i>	6,591	<i>U.S.</i>	5,762
<i>OTHER</i>		<i>OTHER</i>	
<i>GUATEMALA</i>	65	<i>CHINA</i>	1,855
<i>TOTAL OF OTHER</i>	65	<i>TOTAL OF OTHER</i>	1,855
<i>OTHERS NOT LISTED</i>	74	<i>OTHERS NOT LISTED</i>	1,208
<b>GRAND TOTAL</b>	6,730	<b>GRAND TOTAL</b>	8,825

\* January-August 2000

**SOURCE:** 1993, 2000. Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, August 2000.

**FRESH TOMATO PRICES**

<b>WHOLESALE TOMATOES PRICES</b> <b>Pesos/Kilogram</b>			
<b>Month</b>	<b>1999</b>	<b>2000</b>	<b>Change %</b>
<b>January</b>	<b>15.50</b>	<b>4.25</b>	<b>(72.58)</b>
<b>February</b>	<b>4.11</b>	<b>3.66</b>	<b>(10.95)</b>
<b>March</b>	<b>6.00</b>	<b>5.60</b>	<b>(6.67)</b>
<b>April</b>	<b>7.00</b>	<b>6.00</b>	<b>(14.29)</b>
<b>May</b>	<b>5.87</b>	<b>6.75</b>	<b>14.99</b>
<b>June</b>	<b>6.06</b>	<b>9.00</b>	<b>48.51</b>
<b>July</b>	<b>9.05</b>	<b>9.12</b>	<b>0.77</b>
<b>August</b>	<b>7.53</b>	<b>14.20</b>	<b>88.57</b>
<b>September</b>	<b>8.06</b>	<b>9.30</b>	<b>15.38</b>
<b>October</b>	<b>3.99</b>	<b>14.00</b>	<b>250.88</b>
<b>November</b>	<b>5.07</b>	<b>10.02</b>	<b>97.63</b>
<b>December</b>	<b>9.30</b>	<b>16.80*</b>	<b>N/A</b>

\*As of the first week of December 2000

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS

AVERAGE EXCHANGE RATE 1999 USD\$1.00 = \$9.55 PESOS

EXCHANGE RATE (DECEMBER 11, 2000) USD\$1.00 = \$9.40 PESOS



**TARIFF SCHEDULES**

<b>NAFTA TOMATO TARIFF SCHEDULE</b>		
<b>H.S. 0702.00.20 SUBHEADING 9906.07.03</b>		
<b>TOMATOES , FRESH OR CHILLED</b>		
<b>TARIFF SEASON</b>	<b>TARIFF - CTS/KG</b>	<b>SAFEGUARD BASE (MT)</b>
March 1, 1994 - July 14, 1994	4.14	165,500
March 1, 1995 - July 14, 1995	3.68	170,485
March 1, 1996 - July 14, 1996	3.22	175,579
March 1, 1997 - July 14, 1997	2.76	180,846
March 1, 1998 - July 14, 1998	2.30	186,272
March 1, 1999 - July 14, 1999	1.84	191,860
March 1, 2000 - July 14, 2000	1.38	197,616
March 1, 2001 - July 14, 2001	0.92	203,544
March 1, 2002 - July 14, 2002	0.46	209,650
Beginning in calendar year 2003 quantitative limitations shall cease to apply.		

Note: Includes all tomato varieties except cherry tomatoes, which have entered duty free since January 1, 1998.

<b>NAFTA TOMATO TARIFF SCHEDULE</b>		
<b>H.S. 0702.00.60 SUBHEADING 9906.07.08</b>		
<b>TOMATOES , FRESH OR CHILLED</b>		
<b>TARIFF SEASON</b>	<b>TARIFF - CTS/KG</b>	<b>SAFEGUARD BASE (MT)</b>
Jan. 1, 1994 - Feb. 28, 1994	2.97	No Limit
Nov. 15, 1994 - Feb. 28, 1995	2.64	172,300
Nov. 15, 1995 - Feb. 29, 1996	2.31	177,469
Nov. 15, 1996 - Feb. 28, 1997	1.98	182,793
Nov. 15, 1997 - Feb. 28, 1998	1.65	188,277
Nov. 15, 1998 - Feb. 28, 1999	1.32	193,925
Nov. 15, 1999 - Feb. 29, 2000	0.99	199,743
Nov. 15, 2000 - Feb. 28, 2001	0.66	205,735
Nov. 15, 2001 - Feb. 28, 2002	0.33	211,907
Nov. 15, 2002 - Feb. 28, 2003	0.00	218,264
Beginning March 1, 2003, quantitative limitations shall cease to apply.		

<b>NAFTA TOMATO PASTE TARIFF SCHEDULE</b>	
<b>H.S. 2002.90.99 TOMATO PASTE</b>	
<b>Year</b>	<b>Duty</b>
1999	4.60
2000	3.45
2001	2.30
2002	1.15
2003	0.00

## **SECTION III. NARRATIVE ON SUPPLY & DEMAND, POLICY & MARKETING**

### **FRESH TOMATOES**

#### **PRODUCTION**

The fresh tomato production for MY 2000 (October/September) is forecast at 1.8 million metric tons (MMT). According to producers, less production is expected due to a decrease in area planted in Sinaloa and Baja California. Also, Sinaloa is experiencing more rainfall than usual in October/November 2000 that could lower yields. Area planted for fresh consumption for MY 2000 is forecast at 68,100 hectares reflecting a decrease of 9.2 percent compared to MY 1999. According to growers, due to tomato oversupplies in Mexico and Florida during MY 1999, less area was planted for MY 2000. States growing for the domestic market tend to plant more Italian tomatoes and states growing for export purposes grow standard tomatoes. Sinaloa, however, plants for both purposes.

The fresh tomato production estimate for MY1999 was revised upward based on recent data. Also, more tomatoes for processing ended in the fresh market because the industry processed less product. Total planted and harvested area was also revised upward based on recent data. MY 1998 estimates reflect final official information.

During the winter season, Sinaloa is the main producer and exporter of tomatoes. Sinaloa growers expect that the improved and extended shelf life varieties, drip irrigation, and plastic mulch that are being used in the fields, will increase yields from the same acreage. During the summer season, Baja California is the main producer and exporter of tomatoes. Both Sinaloa and Baja California are more technologically advanced than other producing states. California tomatoes face direct competition from Baja California. Producers from Jalisco, however, tend to increase their acreage slightly for the summer cycle as this state also exports tomato. Sinaloa, Baja California, and Jalisco are beginning to produce horticultural products, including tomatoes, in green houses. Reportedly, there are less than 100 hectares in the country, but there is little official information available because it is a relatively new trend.

Tomato production costs have increased in recent years. Imported agro-chemicals, seeds and fertilizers are the most costly inputs. Production costs for fresh tomato for the summer crop in Baja California for 2000 vary from 30,000 to 38,000 pesos/Ha (US\$3,158 to \$4,000/Ha). The relative cost breakdown is as follows: 1) 38 percent for seeds and planting activities; 2) 13 percent for water and irrigation activities; 3) 8 percent for fungicides and pest control activities; 4) 19 percent is for harvesting activities; 5) 5 percent for agricultural insurance and financial costs; and 6) other cultivation activities. The cost of production depends also on the value of the peso against the dollar because many inputs are imported from the United States. In general, Mexican banks have stopped giving loans to tomato growers who produce exclusively for the domestic market. Producers with export contracts receive some operating capital from contracting companies in the United States. Producers and the government are very aware of meeting quality standards on fruits and vegetables and have implemented programs to comply with food safety strategies.

Overall yields for tomatoes for fresh consumption for MY 2000 are forecast at 28 MT/Ha. Individual

yields vary depending on the production conditions and inputs. Baja California and Sinaloa growers generally achieve the highest fresh tomato yields — about 35 to 45 MT/Ha. — due in part to their widespread pest and disease control programs. In other areas of Mexico, growers achieve lower yields — 12 to 25 MT/ha — due to less intensive use of inputs and less intensive pest control efforts. Average grower prices in Sinaloa for MY 2000 ranged from \$800 - \$1000 pesos/MT (US\$84.20 to US\$105.26/MT) at the beginning of the season.

## CONSUMPTION

Tomato consumption for MY 2000 is forecast to be lower compared to MY 1999 due to lower supplies and higher prices. Final tomato consumption also depends on tomato exports to the United States because domestic consumption tends to be a residual after exports. Tomato consumption for MY 1999 was slightly higher than expected for the first semester of 2000 because of good market prices, however, for the second semester consumption decreased due to higher domestic prices. According to producers, some tomatoes planted for processing in MY 1999 ended in the fresh market because processing plants used less product. Fresh tomato consumption in Mexico is still approximately 35 lb./person.

During March, April, and May prices tend to rise because of increased export demand which reduces supplies for the domestic market. Prices for February, March and April 2000, however, were low because of more available supplies. Producers in Sinaloa indicated there were less exports and thus more product available for the domestic market. But, the export demand was more strongly felt in June through August because Baja California planted less tomatoes and was exporting higher volumes of tomatoes to the United States. Thus, the domestic market prices increased due to less availability. Tomato prices in September fell because of US tomato imports. During October and November, however, prices rose due to increased exports from Baja California. It is important to note that when fresh market prices are very attractive, some tomatoes for processing are diverted to the fresh market and *vice-versa*.

## TRADE

According to Mexican trade data, Mexico exported approximately 674,079 MT to the United States during MY 1999, compared to 620,734 MT in MY 1998. Exporters expressed that international market forces pushed down tomato prices, resulting in less exports than expected. Oversupplies from Sinaloa and Florida reportedly caused a glut in the international market. Prices suffered several dips in January/March 2000 and to maintain the reference price of US\$5.27 per 25 lb box producers returned tomatoes from the border. Growers anticipate that exports for MY 2000 will not surpass MY 1999 volumes as both Sinaloa and Baja California decreased plantings. The base price tomato agreement between the U.S. and Mexico has worked well. This agreement will end in October 2001 when both governments will have to decide what to do next. There are two reference prices. The summer marketing period (July 1 through October 22) has the price of US\$0.1720 per pound or US\$4.30 per 25 pound box. The winter marketing period (October 23 through June 30) has the price of US\$0.2108 per pound or US\$5.27 per 25 pound box.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption and fluctuates depending on the international price. According to Mexican trade data, imports for 2000 are forecast to be over 10,000 MT. Imports for MY 1999 grew over previous volumes to 28,500 MT according to Mexican trade data. Growers indicate that during August/September 2000 imports increased

because of lower supplies from Baja California. Sources indicate that good tomato prices in California caused increased imports during the 2000 summer season.

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through the various wholesale markets throughout Mexico and from there to the large supermarkets and retail stores. There were no promotional campaigns for imported tomatoes during 2000. Tomatoes for the export market are shipped directly from the producing areas to the U.S. border. Tomato tariff classification numbers are 07.02.002, 07.02.004, 07.02.006.

## **POLICY**

Currently there are no non-tariff trade barriers for fresh tomatoes or tomato products imported from the United States, nor does the Mexican Government provide export subsidies for fresh tomatoes or tomato products.

Under NAFTA, Mexico does not have a safeguard mechanism for tomatoes. The U.S., however, has a safeguard mechanism for tomato imports from Mexico. See Section II for the tariff phase-out schedule for both the U.S. and Mexican tomatoes under the NAFTA.

## **TOMATO PASTE**

### **PRODUCTION**

Tomato paste production for MY 2001/2002 (March/February) is forecast at 31,500 MT, a 10 percent increase compared to MY 2000 production. The industry, however, believes production of tomato paste will continue at low levels because of the continued high inventories in the international market. Tomato paste production for MY 2000 was revised downward to 28,500 MT. Tomato paste production for MY 1999 was also revised downward based on information from industry sources.

Planting of processing tomatoes for MY 2000 is forecast to decrease to 4,400 hectares because of decreased international demand for tomato paste. Yields are expected to be in the 46-50 MT/Ha range, given normal weather conditions. Area planted for MY 1999 remains unchanged. Yields, however, were lower for MY 1999 at approximately 45 MT/ha or less due to untimely rain. Area harvested for MY 1998 was revised upward based on industry information. As always, however, the area harvested for processing purposes will depend on the demand for fresh tomatoes in the domestic and international markets. Tomatoes for processing for MY 2000 are forecast at 210,000 MT if good weather prevails. Tomatoes for processing for MY 1999 were revised downward due to lower yields to 216,000 MT. The industry, however, used approximately 190,000 MT due to a decrease in tomato paste production. The rest of the tomato went to the fresh market or livestock feed. Tomato for processing for MY 1998 was revised downward to 355,000 MT based on industry sources. Cost of production for the processing tomato for MY 2000 ranged from 12,500 to 13,500 pesos/Ha (US\$1,316 to 1,421/Ha).

Production of tomato paste depends very much on fresh tomato demand. When there is a high demand for fresh tomatoes for the export market, some processing tomatoes are diverted and end up either in the

domestic fresh market or the export market. Due to the international price problems encountered by the tomatoes for export during the first three months of 2000, there was a larger volume of tomatoes available for the industry at good prices, but because of the international high inventories, the industry could not take advantage of the price situation. Afterwards, the fresh tomato prices began to increase making it more difficult for the industry to buy tomatoes. Most plants operate from March through June. Tomato paste production data are difficult to obtain, the government does not publish such data and those published by the industry tend to be inconsistent or incomplete.

Seven tomato paste processing plants, which constitute the majority of the Mexican tomato paste industry, are located in Sinaloa. Mexican and multinational firms control these plants. They produce paste under their own labels and for use in other products such as ketchup, tomato based juices, sauce, hot sauce, sardines, and other tomato paste containing products. Tomato paste in Mexico is made at different concentrations depending on the intended end use: 29, 31, 36, 44 degrees Brix.

Sinaloa's total processing capacity is approximately 6,350 metric tons per day. Some plants contract their tomatoes for processing directly with the local growers. Other plants prefer to purchase most of their supply in the cash market. The processing plants provide the growers under contract with most of their inputs, including seedlings, fertilizer, and technology for pest control. Processors then deduct these input costs from the payment for the product. Planting and harvesting for processing tomatoes depend on the fresh market prices and the international prices for fresh tomato and tomato paste.

## CONSUMPTION

*Note: The tomato paste consumption data includes domestic production and tomato paste imported by the paste industry and the dehydration industry. According to sources, all the dehydrated product is exported.*

Tomato paste consumption is estimated as the residual after subtracting exports and ending stocks from total supply, then adding imports as appropriate. Although the domestic market is not very large, it acts as a buffer for oversupplies of canned tomato paste. Tomato paste consumption for MY 2001 is forecast at 32,000, an increase of 3.2 compared to MY 2000. Even though domestic consumption of tomato paste is growing due to the large variety of products prepared with tomato paste, the growth has been slow. Tomato paste consumption from MY 2000 was revised upward to 31,000. The final estimate, however, will depend on export demand, which has been low. Consumption for MY 2000 and 2001 show a decrease of approximately 15 percent compared to MY 1999 because the dehydration industry indicated a decrease in imports of tomato paste for dehydration purposes. MY 1999 consumption estimates were revised downward based on available industry information. This data does include more tomato paste imports for the dehydration industry. High capital costs and the lack of warehouses encourage processors to sell excess supplies into the domestic market rather than maintain inventories.

## TRADE

Mexican tomato paste exports for MY 2001 are forecast at 7,500 MT below average because international demand is also forecast to continue low. MY 2000 export estimates were revised downward due to high international inventories. Tomato paste export estimates for MY 1999 have been revised upward based on more recent Mexican trade data. The average export price for tomato paste for MY 2001 is expected at about US\$0.28 to \$0.32 /lb. Average prices for tomato paste for MY 2000 were between US\$0.26 to \$0.28/lb. These prices are considered low compared to average prices in MY 1999 of \$0.40 /lb.

According to industry sources, the United States has been increasing production and high inventories, but the most important factor in the international arena is that China has accessed the international market with high levels of production that have lowered international prices. Mexico envisions that with China in the market, there are little possibilities of increasing exports very much. The main markets for Mexican tomato paste are the United States and South America. Although the United States is an important market, the Mexican industry also exports paste to Europe when the U.S. domestic market is saturated.

Tomato paste imports for MY 2001 are forecast to decrease to 8,000 MT. Imports, however, will depend on the industry's international contracts and their possibility to increase production. Import estimates for MY 2000 were revised upward because the industry needed to supply international contracts, as well as domestic demand. The industry indicated that imports were even more affordable than producing domestically. Unlike the past two years where imports were about 80 percent from the United States, imports for MY 2000 were 65 percent from the US, 21 percent from China and 13 percent from Chile. Importers mentioned that Chinese tomato paste was imported at approximately US\$0.26/lb or less. The dehydration industry reported less imports for MY 2000 or about 20 to 25 percent of total imports. For the past two years approximately an 80 percent of imported tomato paste was destined for the dehydration industry. This industry imports paste and exports tomato powder.

## POLICY

Tomato paste imports are subject to a 20 percent duty for all non-NAFTA suppliers. The tariff classification code is 20.02.90.99. For 2001, the duty applied to imports from the United States is 2.30 percent. For the tariff phase-out schedule under NAFTA see Section II.