



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 11/28/2005

GAIN Report Number: MX5107

Mexico

Avocado

Annual

2005

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Report Highlights:

Mexican Hass avocado production is expected to reach a record 1 million metric tons (MMT) in 2005. Hass exports for MY 2005/06 are forecast at 160,000 MT, of which approximately 130,000 MT will be exported to the United States. The year-round opening of the U.S. market, which became effective January 31st, 2005, will allow Mexican Hass avocados to be shipped to 47 of the 50 U.S. states. Even though producers and shippers were not granted year-round access to the U.S. market during MY 2004/05, as they had expected, exports still reached a record 112,000 MT last year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1]
[MX]

| PSD Table | | | | | | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|------------------------------|---------------------|
| Country | Mexico | | | | | |
| Commodity | Avocados, Fresh | | | | (HECTARES) (1000 TREES) (MT) | |
| | 2003 Revised | | 2004 Estimate | | 2005 Forecast | |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | 08/2003 | | 08/2004 | | 08/2005 | |
| Area Planted | 102,519 | 102,519 | 102,533 | 102,627 | 0 | 111,834 |
| Area Harvested | 95,482 | 95,482 | 102,476 | 98,330 | 0 | 100,000 |
| Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Bearing Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL No. Of Trees | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 902,332 | 902,332 | 1,030,000 | 934,282 | 0 | 1,000,000 |
| Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 902,332 | 902,332 | 1,030,000 | 934,282 | 0 | 1,000,000 |
| Exports | 105,000 | 105,000 | 135,000 | 133,856 | 0 | 160,000 |
| Fresh Dom. Consumption | 772,332 | 772,332 | 860,000 | 772,747 | 0 | 800,000 |
| Processing Consumption | 25,000 | 25,000 | 35,000 | 25,000 | 0 | 40,000 |
| TOTAL DISTRIBUTION | 902,332 | 902,332 | 1,030,000 | 934,282 | 0 | 1,000,000 |

PRODUCTION

For MY 2005/06, Mexican avocado production is forecast at a record 1 million metric tons (MMT) due to favorable weather conditions, implementation of phytosanitary programs which have successfully controlled pests, and more trees coming into production. The cessation of the producers' practice of harvesting only 2 MT per hectare has also contributed to the high production level. In past years, this practice has been utilized in order to avoid saturating export markets, and thereby causing price reductions in the international markets. Because avocados do not ripen until picked, they can stay on the tree for months. This unique quality has allowed producers to work with exporters in order to harvest and ship at the most optimal times of the year.

Despite the fair weather conditions that prevailed in MY 2004/05, production is estimated at 934,282 MT, 9.29 percent lower than the initial forecast. Unexpected rains at the blooming stage, combined with the down year of the alternate bearing cycle, contributed to a drop in production. Moreover, the enforcement of conservative harvesting practices during five months of MY 2004/05 also contributed to the lower than expected production numbers. MY 2003/04 figures remain unchanged and reflect official data.

Michoacan is the main avocado producing state in Mexico, accounting for more than 88 percent of total production, followed by the states of Mexico, Morelos, and Nayarit.

CROP AREA

The official forecast for total national area planted for MY 2005/06 is 111,834 hectares, approximately a 9-percent increase over MY 2004/05 planted area. Planted area has increased because there is greater international demand for high-quality Mexican Hass avocados. In addition, several municipalities in Michoacan have been added to the APHIS list of authorized pest-free municipalities. These additions have also had a slight impact on the area planted in MY 2004/05. According to state authorities, Michoacan boasts roughly 90,000 hectares devoted to Hass avocado production. Area planted for MY 2003/04 remains unchanged.

Currently, the APHIS-administered export inspection program has certified 28,853 hectares of avocado orchards. This program allows for Mexican avocados to be shipped to 47 of the 50 U.S. states. Based on the provisions established in the work plan, signed on September 14, 2005, the Michoacan Plant Health State Committee (Comite Estatal de Salud Vegetal - CESV) intends for the certified area to increase to 33,000 hectares by the end of MY 2005/06. This work plan also calls for the semi-annual surveillance of listed municipalities, once in the dry season (Jan-March) and again during the wet season (August-October). Furthermore, the work plan allows for the inspection of proposed areas, in conjunction with the surveillance applied to certified areas.

Michoacan is the only state in Mexico that is allowed to export avocados to the United States. Within Michoacan, the only municipalities that have been certified by APHIS to export are Acuitzio, Tancitaro, Uruapan, Tingüindin, Salvador Escalante, Nuevo Parangaricutiro, Peribán de Ramos, Ario de Rosales, Los Reyes, Apatzingán, and Taretan.

Producers from the neighboring states of Mexico and Jalisco are currently working to implement phytosanitary and good agricultural practices programs in their avocado producing areas. These practices are similar to those used in the state of Michoacan. This is the first stage of a three-stage process that must be completed before a municipality can export to the United States. These stages are comprised of:

1. The eradication of pests of concern;
2. Recognition of pest free areas by Mexican authorities; and
3. Accreditation in the APHIS avocado export program.

Although the majority of avocado exports are destined for the U.S., other markets such as Japan, Canada, France, and El Salvador are also significant. Unlike the U.S., these markets do not require APHIS accreditation. However the GOM requires that all avocado producers, processors, and shippers meet strict phytosanitary requirements, as established by the Secretariat of Agriculture.

Though producers from the states of Mexico and Jalisco are looking for eventual certification to export to the United States, their primary objective in the short-term is to grow and solidify their market share in the Central American and the emerging European markets. Their marketing efforts are based on promoting the quality of Mexican produce. To this end, the Michoacan Plant Health State Committee expects the entire state of Michoacan to be free of pests in 2006.

INPUTS

The production of Mexican Hass avocados has been a profitable activity, due to high domestic retail prices, increased exports, and relatively stable production costs. For MY 2005/06, the cost of production is expected to be \$35,000–\$37,500 pesos (USD \$3,264-\$3,544) per hectare, which is similar to MY 2004/05 costs. Over the past several years many producers have implemented the Mexican Ministry of Agriculture's (SAGARPA) non-mandatory food safety program recommendations. These voluntary measures include providing for:

- Sanitary facilities in the orchards for workers;
- Fences to separate the orchard from other areas of the farm;
- Trash disposal and recycling systems;
- The banning of non-essential animals from the production areas; and
- The creation of designated eating areas outside of the production zones.

Although many producers were concerned that these measures would increase costs, they have found that production costs have not been significantly impacted. In fact, the majority of avocado farmers in Mexico have implemented SAGARPA's recommended measures

because they are aware that such practices elevate the image of Mexican avocados as a sanitary product in foreign markets.

YIELDS

Official data reveals that average yields for MY 2005/06 are forecast at 10 MT/ha. This impressive yield is primarily due to favorable weather and good agricultural practices in the orchards. MY 2004/05 yield figures were revised downward to 9.5 MT/ha, upon the recent publication of official data. MY 2003/04 remained unchanged at 9.45 MT/ha.

POLICY

Mexico continues to successfully implement phytosanitary requirements and good manufacturing practices for the transportation of fresh avocados within the country (see MX2080). Unofficial reports from one state official indicate that the vast majority of Michoacan producers and packers have implemented SAGARPA's recommended good manufacturing practices in order to guarantee the distribution of high quality produce in international and domestic markets.

CONSUMPTION

Fresh domestic consumption in MY 2005/06 is forecast at 800,000 MT, a 4 percent increase over MY 2004/05. This increase in consumption can be attributed to the fact that producers and packers are now marketing export quality produce, at competitive prices, to the domestic market. In fact, the vast majority of Mexico's avocado production continues to be consumed domestically. Avocado is a staple food in most Mexican households, and is usually consumed fresh, or as a main ingredient in homemade guacamole.

Avocado consumption by the processing industry is forecast at 40,000 MT in MY 2005/06. Though data on avocado consumption by the processing industry is either proprietary, or does not exist, industry representatives indicate that it may be up as much as 10 percent over MY 2004/05. This increase in consumption is mainly due to greater demand from the U.S. Anglo and Hispanic sectors, as well as chefs in selected restaurants looking for a competitive edge in the retail food marketplace. Furthermore, because of successful overseas positioning of Mexican cuisine, consumption of guacamole is expected to increase during key selling periods such as Cinco de Mayo, Memorial Day, and the Superbowl. Recently, Agro-industrial companies have started processing fresh avocados by extracting avocado pulp and oil. The pulp is frozen and packed, or prepared as guacamole, to be exported, mainly to the U.S. market. The non-refined avocado oil, which is highly versatile and claims a number of health benefits, is used in the manufacturing of cosmetics and beauty products.

State and private sources indicate that despite record exports, domestic consumption will not be affected. The increased output, and new orchards coming into production, will allow producers and exporters to adequately meet both domestic and international demand. The MY 2004/05 figures for fresh and processing consumption were revised downward, due to lower-than-expected supplies. MY 2003/04 figures remained unchanged. Total average annual per capita consumption in Mexico is estimated around 9 kg.

AVOCADO PRICES

MY 2005/06 export prices are expected to be similar to those of MY 2004/05. Export prices in MY 2004/05 were roughly US \$24.00- \$24.50 per 11.3 kg (25 lbs) box. As of November, 2005, wholesale domestic prices during CY 2005 have been set between US \$15.99-\$27.08

per 17 kg (37.4 lbs) box. Wholesale domestic prices for CY 2004 were between US \$11.65-\$18.94 per 17 kg (37.4 lbs) box. It is expected that wholesale domestic prices during CY 2006 will remain about the same as CY 2005.

| WHOLESALE AVOCADO PRICES | | | |
|--|-------|--------------------|----------|
| Month | 2004 | 2005 | Change % |
| January | 7.39 | 10.16 | 37.48 |
| February | 8.31 | 10.57 | 27.20 |
| March | 9.15 | 13.43 | 46.78 |
| April | 10.91 | 16.54 | 51.60 |
| May | 11.78 | 15.34 | 30.22 |
| June | 12.01 | 25.83 | 115.07 |
| July | 11.67 | 25.18 | 115.77 |
| August | 11.47 | 18.94 | 65.13 |
| September | 11.33 | 13.75 | 21.36 |
| October | 10.26 | 10.64 | 3.70 |
| November | 9.50 | 10.14 ^① | 6.74 |
| December | 8.68 | N/A | N/A |
| Pesos/kilogram | | | |
| Source: Servicio Nacional de Informacion de Mercados 2004 Exchange Rate Avg.: U.S.\$ 1.00 = \$ 11.28 pesos November 14, 2005 exchange rate U.S. \$ 1.00 = \$ 10.78 pesos ^① As of November 14, 2005 | | | |

TRADE

Mexican avocado exports are forecast to reach a record level of 160,000 MT in MY 2005/06, a nearly 20-percent increase over the MY 2004/05 figure. This increase is due to greater output, and year-round market access to 47 of the 50 U.S. states. Reportedly, producers and packers had been concerned for some time that open access to the U.S. market might lead to market saturation, and eventual downward pressure on prices. In order to avoid such a situation, producers and packers have worked together to limit their exports by harvesting only 2 MT/hectare. In light of the year-round U.S. market opening, producers are suspending this practice, but only to the extent to which they are still able to avoid market saturation. Michoacan growers currently have the capacity to harvest 10-15 MT/ha if there is no threat of market saturation. Growers and packers have forecast MY 2005/06 avocado exports to the United States at 130,000 MT. Exports to the U.S. in MY 2004/05 were 112,000 MT, while exports in MY 2003/04 were only 42,407 MT. Mexico, as a member of the Hass Avocado Board (HAB), is working with their California, Chile, New Zealand, and Dominican Republic counterparts to monitor the U.S. market situation in order to prevent market saturation and price reductions.

As of January 31, 2005, Mexican Hass avocados can be imported into all U.S. states except California, Florida, and Hawaii, on a year-round basis. This policy change was made in a USDA amended regulation, and was established in a final rule published in the Federal Register on November 30, 2004 (69 FR 69747–69774, Docket No. 03–022–5). Twenty-two packers are officially eligible to export Mexican avocados to the United States under the APHIS export program.

Export figures for MY 2004/05 were revised downward to 133,856 MT. These lower-than-expected export numbers are due to the partial-year enforcement of restricted harvesting programs, whereby producers pick only 2 MT per hectare, and strong domestic demand. Growers ceased restrictive harvesting practices once the U.S. market opened up in January of 2005. MY 2003/04 export figures are unchanged.

According to both official and private sources, the export market continues to be profitable to producers, but the domestic market still represents the main business platform for most Mexican avocado farmers. Official data indicates that most Mexican avocados were exported to the United States, Japan, Canada, France, and El Salvador. Exporters are currently channeling resources into developing markets in the European Union and China. In order to gain access to these emerging markets, producers are enforcing good agricultural practices, such as avoiding the use of pesticides and agro-chemical products that do not comply with EUREGAP regulations.

On September 14, 2005, USDA and SAGARPA signed the work plan that allows access for U.S. Hass avocados into Mexico. For the first 12 months of the work plan, avocados may be distributed to all states, except for Michoacan, Jalisco, Morelos, Puebla, and Nayarit. After 12 months, U.S. avocados may be distributed to all Mexican states. Most industry representatives do not expect U.S. avocados to be highly competitive in the Mexican market, mainly because it will be hard for U.S. producers to compete on a price basis, but also because U.S. avocados have a slightly different taste and texture, which may not meet with Mexican preferences. The most significant opportunity for U.S. avocado exports to Mexico will be for California avocados to find markets in the Baja Peninsula.

TRADE MATRIX

| AVOCADO | | H.S. 0804.40 | | UNITS: MT | |
|---------------------------|---------|--------------|----------------------|-----------|--|
| EXPORTS FOR (JAN-DEC) TO: | | | | | |
| CY 2004 | | | CY 2005 ^① | | |
| U.S. | 67,579 | U.S. | 90,596 | | |
| FRANCE | 13,136 | JAPAN | 19,343 | | |
| EL SALVADOR | 11,973 | CANADA | 11,851 | | |
| CANADA | 10,893 | FRANCE | 5,456 | | |
| JAPAN | 10,857 | EL SALVADOR | 4,813 | | |
| OTHER | 22,097 | OTHER | 9,940 | | |
| TOTAL | 136,535 | TOTAL | 141,999 | | |

| AVOCADO | | H.S. 0804.40 | | UNITS: MT | |
|-----------------------------|----|--------------|----------------------|-----------|--|
| IMPORTS FOR (JAN-DEC) FROM: | | | | | |
| CY 2004 | | | CY 2005 ^① | | |
| U.S. | 26 | U.S. | 0 | | |
| OTHER | 0 | OTHER | 0 | | |
| TOTAL | 26 | TOTAL | 0 | | |

Source: World Trade Atlas, Mexico Edition.

^① As of August 2005.

TRADE POLICY

Currently, Mexican fresh Hass avocados entering the United States are not subject to a duty, but are compelled to pay a fee of 2.5 cents per pound for promotional purposes (see Marketing section).

Fresh avocado imports (HS 08.04.40.01) from the United States are also not subject to a duty, but, naturally, are subject to phytosanitary and sanitary inspections by SAGARPA.

MARKETING

During CY 2005, the Mexican Hass Avocado Importers Association (MHAIA) conducted their “It has to be Hass” campaign in the U.S. The campaign, which targeted the Anglo and Hispanic populations, was designed to raise awareness and consumption of Hass avocados in strategic markets through the promotion of the product’s superior characteristics and versatility.

Currently, the order assessment of 2.5 cents per pound, to finance promotion, research, consumer information, and industry programs, is levied on fresh Hass avocados, produced or imported into the United States for consumption.