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## Mexico

## Citrus

## Semi-Annual Report

## 2006

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**Report Highlights:**

The fresh orange production forecast for MY 2005/06 was revised downward to 3.8 MMT due to dry weather conditions. Orange production for MY 2004/05 was also revised downward to 4.0 MMT, however this still reflects greater production compared to MY 2003/04. MY 2005/06 fresh orange prices are expected to be high compared to MY 2004/05. Frozen concentrate orange juice (FCOJ) production for MY 2006 was revised downward due to expected lower volumes of fresh oranges available for the processing industry. FCOJ production for MY 2005, however, was revised upward due to greater than expected demand on the international market.

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Includes PSD Changes: Yes  
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**SECTION I. Situation and Outlook.**

The fresh orange production forecast for MY 2005/06 was revised downward from the previous estimates to 3.8 MMT. This decrease is due to dry weather conditions in the northern states during the first quarter of 2005, and strong rainfalls during September and October. Orange production for MY 2004/05 was also revised downward to 4.0 MMT, however this still reflects higher output compared to MY 2003/04. Frozen concentrate orange juice (FCOJ) production for MY 2006 was revised downward due to a lower volume of fresh oranges available to the processing industry. However, FCOJ for MY 2005 was revised upward due to greater demand on the international market. Exports of FCOJ for MY 2006 are expected to be lower compared to MY 2005 exports.

## SECTION II. Statistical Tables

## Fresh Orange PS&amp;D

Mexico						
Oranges, Fresh			(HECTARES) (1000 TREES (1000 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	11/2003		11/2004		11/2005	
Area Planted	349705	349705	334000	334151	334000	334151
Area Harvested	334274	334274	330000	309645	328000	320000
Bearing Trees	67523	67523	66660	62548	66256	64640
Non-Bearing Trees	3117	3117	810	4950	1212	2858
TOTAL No. Of Trees	70640	70640	67470	67498	67468	67498
Production	3901	3901	4300	4000	3900	3800
Imports	18	18	20	25	18	18
TOTAL SUPPLY	3919	3919	4320	4025	3918	3818
Exports	13	13	20	16	20	16
Fresh Dom. Consumption	3706	3706	3650	3269	3478	3402
Processing	200	200	650	740	420	400
TOTAL DISTRIBUTION	3919	3919	4320	4025	3918	3818

## Fresh Concentrate Orange Juice PS&amp;D

Mexico				65	Degrees Brix	
Orange Juice					(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	01/2004		01/2005		01/2006	
Deliv. To Processors	200000	200000	650000	740000	420000	400000
Beginning Stocks	1000	1000	1000	1000	3000	3000
Production	20100	20100	65000	74100	42000	40000
Imports	617	617	620	900	620	620
TOTAL SUPPLY	21717	21717	66620	76000	45620	43620
Exports	16035	16035	58820	68200	37620	35620
Domestic Consumption	4682	4682	4800	4800	5000	5000
Ending Stocks	1000	1000	3000	3000	3000	3000
TOTAL DISTRIBUTION	21717	21717	66620	76000	45620	43620

## Wholesale Orange Prices

WHOLESALE ORANGE PRICES (PESOS/KG)				
Month	2004	2005	2006	Change % 05/06
January	1.63	1.35	2.06	52.59
February	1.63	1.38	1.80	30.43
March	1.78	1.44	2.00	38.88
April	1.93	1.49	2.28	53.02
May	2.08	1.67	N/A	N/A
June	2.23	2.74	N/A	N/A
July	2.33	3.61	N/A	N/A
August	3.12	3.99	N/A	N/A
September	3.07	3.35	N/A	N/A
October	2.15	2.36	N/A	N/A
November	1.66	2.17	N/A	N/A
December	1.50	2.07	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS  
 AVR. EXCHANGE RATE FOR 2004 US\$1.00 = \$ 10.90 PESOS  
 EXCHANGE RATE APRIL 3, 2006 US\$1.00 = \$ 10.89 PESOS  
 \*Data as of April 2006

**SECTION III. Narrative on Supply & Demand, Policy & Marketing****FRESH ORANGES****PRODUCTION**

The marketing year 2005/06 (November-October) fresh orange production forecast was revised downward to 3.8 MMT based on information from industry sources. This decrease in production was primarily driven by dry weather conditions in the northern states during the first quarter of 2005 that impacted the flowering of trees, and was compounded by strong rainfalls caused by hurricanes during September and October. The subsequent damage to the blooms led to lower-than-expected harvested volumes of Valencia oranges from December to early April 2006. It also led to a significant decline in second blooms. It is expected that the May 2006 crop will also be lower compared to the May 2005 crop. Production estimates for MY 2004/05 were also revised downward based on official estimates, but still reflect greater production compared to MY 2003/04. Data for MY 2003/04 remains unchanged.

The forecast for oranges destined for processing for MY 2005/06 was revised slightly downward to 400,000 MT. This reduction was driven by a smaller crop and higher fresh fruit prices. The MY 2004/05 estimate for oranges destined for processing was revised upward to 740,000 MT, driven by strong demand for FCOJ on the international market, greater domestic production, and relatively low fresh orange prices. Data for MY 2003/04 remains unchanged.

Orange producers do not expect an increase in the number of groves. In general, growers have been abandoning groves, or switching to other crops, due to high production costs, wide swings in fresh orange prices, and marketing problems. The historical increases in orange production are predominantly a result of increased tree density, rather than an expansion in area planted. Area planted for oranges is forecast to remain at 334,151 hectares in MY 2005/06. The excellent weather conditions that prevailed during MY 2004/05 may encourage growers to at least maintain current area planted for MY 2005/06. Area planted for MY 2004/05 was revised slightly upward from the previous forecast, but still reflects a downsizing of groves compared to MY 2003/04. Harvested area for MY 2004/05 was revised downward as some areas in Veracruz and Yucatan suffered from unfavorable weather. Countrywide orange yields for MY 2005/06 are forecast at 11.8 MT/ha, lower than MY 2004/05 yields, due to drier weather conditions. MY 2004/05 yields were roughly 12.9 MT/ha. Area planted and harvested for MY 2003/04 remains unchanged.

Farm gate prices in Northern Veracruz began in October 2005 between \$700 and \$1,200 pesos/MT (U.S. \$64.80 and \$111.10/MT) for the early varieties. Valencia orange prices during January/February 2006 began at higher rates compared to the same time in 2005 due to greater demand. Farm gate prices were about \$1,100 to \$1,400 per MT (U.S. \$100 to \$127/MT).

**CONSUMPTION**

The fresh orange consumption forecast for MY 2005/06 has been revised downward from the previous forecast. This reduction was driven by the fact that there are fewer fresh oranges available than originally expected, at higher prices. The final consumption estimate will depend on the volume of oranges purchased by the processing industry. The MY 2004/05 consumption estimate was also revised downward as greater supplies of oranges were destined for the processing industry. The MY 2003/04 consumption estimate remains unchanged.

Because of a lower volume of supply, MY 2005/06 wholesale fresh orange prices during November/December 2005 were higher compared to 2004. This price trend is expected to continue during MY 2005/06. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. February/March 2006 retail prices for Valencia oranges were approximately \$5.00 to \$6.50 pesos/kg (U.S. \$0.45 to \$0.60/kg) compared to about \$3.40 pesos/kg (U.S. \$0.30/kg) during the same period of time in 2005.

## **TRADE**

The forecast for fresh orange exports for MY 2005/06 was revised downward due to a lower-than-expected supply of oranges. The final export figures will depend on U.S. demand and orange supplies from California and Florida. Most of Mexico's oranges that are exported to the United States are from Sonora, a state that produces very high-quality oranges. In recent years producers in Nuevo Leon have been increasing their orange exports to both the United States and Canada. Export estimates for oranges for MY 2004/05 were revised downward, but still reflect an increase compared to MY 2003/04. Data for MY 2003/04 remains unchanged. The United States continues to be the largest export market for Mexican oranges. Under NAFTA, tariffs and TRQs for fresh oranges have already been eliminated between Mexico and the United States.

Mexico will have an opportunity to expand its fresh orange exports to Japan under the new Mexico-Japan trade agreement that entered into effect on April 1, 2005. Under this agreement, Mexico will have a duty-free annual quota of 10 MT of oranges during the first two years (i.e., MY 2005/06 and 2006/07). This rather small volume is intended to be used mainly for promotional purposes. In MY 2007/08, the duty-free annual quota will increase to 2,000 MT, and then increase by 1,000 MT each year until it reaches 4,000 MT in MY 2009/10. After that time, Mexico's access to the Japanese market will be renegotiated.

The import forecast for MY 2005/06 remains unchanged. Mexico is a very price sensitive market, and U.S. orange prices are very high compared to the domestic product. The import estimate for MY 2004/05 was revised upward due to greater demand from the border region. MY 2003/04 orange imports remain unchanged.

## **MARKETING**

U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more responsive to prices than to quality. This is one of the reasons why exports from the U.S. have remained limited. Because of their excellent quality, U.S. oranges command a price four to five times higher than Mexican oranges. Some attempts have been made by U.S. firms to enter the market, but they have realized only limited success because U.S. shippers are accustomed to focusing on the quality of their product rather than the price. Due to phytosanitary restrictions, only citrus fruit coming from California, Texas, and Arizona can be exported to Mexico.

## **FROZEN CONCENTRATE ORANGE JUICE**

### **PRODUCTION**

Reliable frozen concentrate orange juice (FCOJ) production numbers are difficult to obtain because the Government of Mexico does not maintain official statistical data on this commodity. The industry only keeps partial information, most of which is proprietary. However, because of input from industry sources, the FCOJ production forecast for MY 2006 (January-December) was revised downward. This revision is attributed to the fact that there

is less volume of fresh oranges available to the processing industry. Orange juice production depends heavily on the international price of FCOJ, and higher prices on the international market means higher prices paid to producers. FCOJ March future contracts for CY 2006 are approximately US\$1.50/lb, compared to CY 2005 prices of US\$0.80/lb. The present situation of higher FCOJ prices will lead to higher industry profit margins. Naturally, limited supply also tends to drive up prices for fresh fruit. The industry is currently buying fruit at approximately \$900 to \$1,250 pesos/ton (U.S. \$82 to \$113/ton), compared to \$430 to \$500 pesos/ton (U.S. \$38.05 to \$44.24/MT) in March 2005.

The FCOJ production estimate for MY 2005 was revised upward to 74,100 MT due to higher fresh orange production, better international prices for FCOJ, and greater international demand. The FCOJ production estimate for MY 2004 remains unchanged.

## CONSUMPTION

FCOJ consumption estimates for MYs 2004, 2005, 2006 remain unchanged. The industry does not expect domestic consumption of FCOJ to increase dramatically because the majority of Mexican consumers prefer fresh squeezed juice instead of processed orange juice. Most of the orange juice produced in Mexico goes to the export market. However, demand for orange juice and orange-flavored products is slowly increasing, mostly driven by hotel chains and restaurants. According to processors, there is usually a 3,000 MT carryover of FCOJ from one year to the next.

## TRADE

Despite strong international prices, MY 2006 FCOJ export estimates were revised downward due to an anticipated lower volume of fresh oranges available for processing. However, exports could increase slightly if demand from the Florida processing industry remains strong. The export estimates for FCOJ for MY 2005 were revised upward due to strong international demand and high prices. The United States is the main market for Mexican FCOJ, followed by Japan, and European Union countries. According to the processing industry, Mexico is exporting more juice to Europe and Japan to take advantage of the lower tariffs it enjoys under the trade agreements it has with those countries. Exports for MY 2004 remain unchanged. FCOJ is imported to cover industry needs for mixing purposes, as well as to meet demand from hotels and restaurants. Nonetheless, these imports are still marginal compared to domestic production. FCOJ import estimates for MY 2006 remain unchanged. Imports for MY 2005 were revised upward, and FCOJ data for MY 2004 remains unchanged.

FCOJ is one of the few remaining agricultural products still subject to a tariff and TRQ under NAFTA. There is currently a 40 million gallon quota on FCOJ from Mexico. The 2006 in-quota duty is zero, while the over-quota duty is 3.145 U.S. cents per liter. In 2007 the quota and the in-quota duty will remain the same, while the over-quota duty will drop down to 1.5725 U.S. cents per liter. In 2008 this TRQ will be completely phased out in accordance with the NAFTA.

Under Mexico's free trade agreement with the European Union (EU), the EU allows entrance 30,000 MT of FCOJ from Mexico with a tariff set at 25 percent below the 20 percent MFN duty, or 15 percent. Mexico will also ship product to Japan under the trade agreement that allows entrance of 3,850 MT at one-half of the 20 percent MFN tariff duty, or 10 percent. During MY 2005, Mexico exported about 21,000 MT to the EU and Japan.

## Other Citrus

Data for fresh citrus and grapefruit remain unchanged from our annual report (see MX5105).