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# Mexico

# Tomatoes and Products

# Annual Report

# 2006

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**Report Highlights:**
Mexico's total tomato production for MY 2006/07 is forecast to increase to 2.2 MMT assuming the resumption of normal weather conditions. MY 2005/06 tomato production is expected to be at 2.12 MMT, primarily due to lower yields resulting from unfavorable weather conditions. Due to strong demand, tomato exports for MY 2006/07 are forecast to increase. Tomato paste production for MY 2006/07 and 2007/08 is forecast to continue at low levels, as it is more economically feasible to import tomato paste rather than to produce it domestically. Thus, tomato paste imports are expected to increase slightly.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Mexico [MX1]
[MX]

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## SECTION I. SITUATION AND OUTLOOK

### TOMATO SITUATION

Tomato production in Mexico for MY 2006/07 (Oct/Sep) is forecast to reach roughly 2.2 million metric tons (MMT), assuming the resumption of normal weather conditions. MY 2005/06 production estimates are about 2.12 MMT, as weather and phytosanitary problems affected the winter output. Exports for MY 2005/06 are estimated at lower levels compared to MY 2004/05 exports. This decline is primarily attributable to lower production and some quality problems resulting from unfavorable weather conditions during the growing season. Over the past several years Mexican greenhouse tomato production has started to become a more important factor in terms of total tomato production. According to the Mexican Greenhouse Horticultural Growers Association (AMPHI), in 2003 there were about 1,300 hectares dedicated to greenhouse produce production. Of that amount, 70 percent was tomato production (Round, Rome, Cherry and other varieties). The AMPHI is forecasting greenhouse produce production area to increase to close to 3,000 hectares in 2006.

Tomato paste production in Mexico has become increasingly less profitable over the past several years. Increased production costs and lower international prices have forced the industry to import tomato paste rather than produce it domestically. Tomato paste imports are forecast to increase to 50,000 MT for MY 2007/08 in order to meet domestic demand.

## SECTION II. STATISTICAL TABLES

### FRESH TOMATO TABLE

| Mexico | | | | | | |
|---|---|---|---|---|---|---|
| Fresh Tomatoes | | | | | | (HA)(MT) |
| | 2004 Revised | | 2005 Estimate | | 2006 Forecast | |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Beginning | 10/2004 | | 10/2005 | | 10/2006 | |
| Plnt For Fresh Consump | 70,000 | 73,330 | 0 | 71,000 | 0 | 73,600 |
| Plnt For Processing | 1,600 | 1,100 | 0 | 1,000 | 0 | 900 |
| TOTAL Area Planted | 71,600 | 74,430 | 0 | 72,000 | 0 | 74,500 |
| Harv. For Fresh Cons. | 67,240 | 70,981 | 0 | 69,250 | 0 | 71,600 |
| Harv. For Processing | 1,500 | 1,000 | 0 | 850 | 0 | 800 |
| TOTAL Area Harvested | 68,740 | 71,981 | 0 | 70,100 | 0 | 72,400 |
| Fresh Sale Production | 1,967,800 | 2,231,735 | 0 | 2,098,750 | 0 | 2,242,000 |
| Processing Production | 60,000 | 31,500 | 0 | 21,250 | 0 | 24,000 |
| TOTAL Production | 2,027,800 | 2,263,235 | 0 | 2,120,000 | 0 | 2,266,000 |
| TOTAL SUPPLY | 2,027,800 | 2,263,235 | 0 | 2,120,000 | 0 | 2,266,000 |

### TOMATO PASTE TABLE

| Mexico | | | | | | |
|---|---|---|---|---|---|---|
| Tomato Paste,28-30% TSS Basis | (MT) (MT, Net Weight) | | | | | |
| | 2004 Revised | | 2005 Estimate | | 2006 Forecast | |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Beginning | 03/2005 | | 03/2006 | | 03/2007 | |
| Deliv. To Processors | 48,000 | 17,500 | 0 | 17,500 | 0 | 17,500 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 7,000 | 2,500 | 0 | 2,500 | 0 | 2,500 |
| Imports | 38,000 | 54,944 | 0 | 46,000 | 0 | 50,000 |
| TOTAL SUPPLY | 45,000 | 57,444 | 0 | 48,500 | 0 | 52,500 |
| Exports | 6,800 | 6,534 | 0 | 1,500 | 0 | 1,500 |
| Domestic Consumption | 38,200 | 50,910 | 0 | 47,000 | 0 | 51,000 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 45,000 | 57,444 | 0 | 48,500 | 0 | 52,500 |

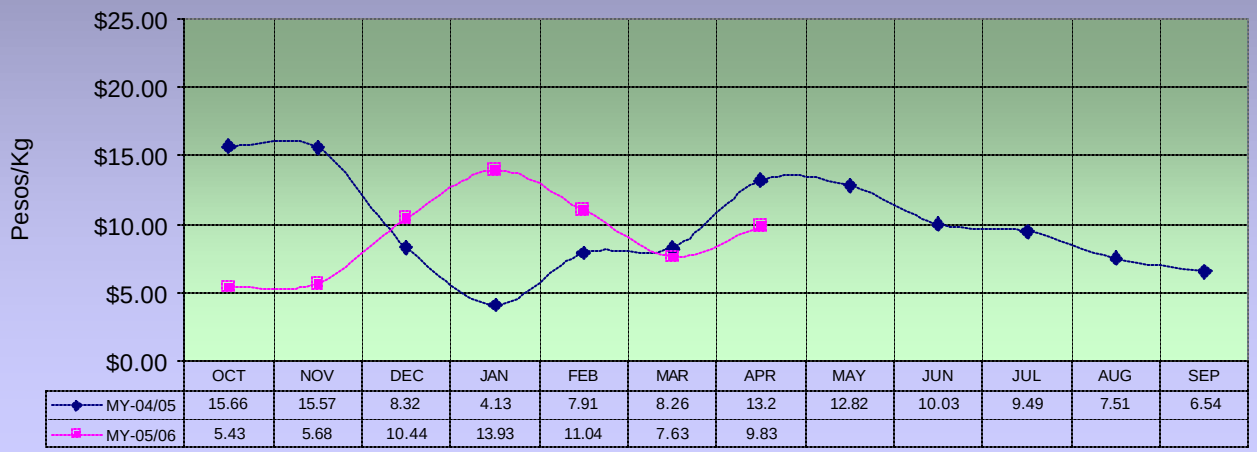
**TOMATO PRICES**

| Wholesale Round Tomato Prices<br>Mexico City<br>Pesos/Kilogram | | | |
|---|---|---|---|
| Month | 2005 | 2006 | CHANGE<br>% |
| JANUARY | 5.76 | 18.44 | 220.13 |
| February | 6.67 | 12.04 | 80.50 |
| MARCH | 8.93 | 8.37 | (6.27) |
| APRIL | 15.88 | 10.46 | (34.13) |
| MAY | 16.25 | 10.39* | (36.06) |
| JUNE | 12.37 | N/A | N/A |
| JULY | 12.84 | N/A | N/A |
| AUGUST | 9.43 | N/A | N/A |
| SEPTEMBER | 12.68 | N/A | N/A |
| OCTOBER | 11.80 | N/A | N/A |
| November | 10.27 | N/A | N/A |
| December | 16.70 | N/A | N/A |

| Wholesale Roma Tomato Prices<br>Mexico City<br>Pesos/Kilogram | | | |
|---|---|---|---|
| Month | 2005 | 2006 | CHANGE<br>% |
| JANUARY | 4.13 | 13.93 | 237.28 |
| February | 7.91 | 11.04 | 39.57 |
| MARCH | 8.26 | 7.63 | (7.62) |
| APRIL | 13.20 | 9.83 | (25.53) |
| MAY | 12.82 | 9.68* | (24.49) |
| JUNE | 10.03 | N/A | N/A |
| JULY | 9.49 | N/A | N/A |
| AUGUST | 7.51 | N/A | N/A |
| SEPTEMBER | 6.54 | N/A | N/A |
| OCTOBER | 5.43 | N/A | N/A |
| November | 5.68 | N/A | N/A |
| December | 10.44 | N/A | N/A |

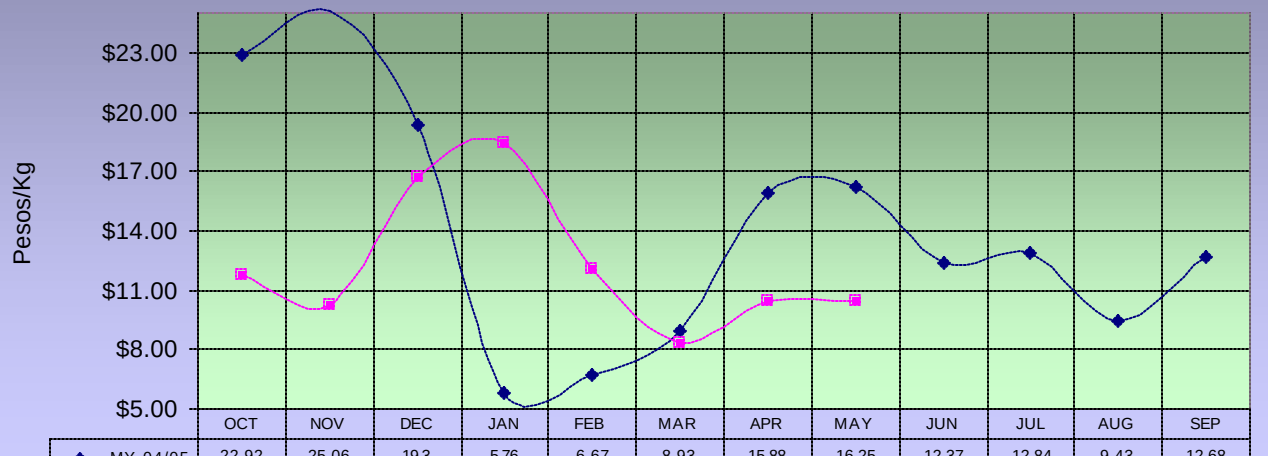
**Source: Sevicio Nacional de Informacion de Mercados**
**2005 Exchange Rate Avg.: U.S.$1.00 = $ 10.90 pesos**
**April 25, 2006, exchange rate U.S. $1.00 = $11.06 pesos**
* As of May 19, 2006

# Roma Tomato Prices
# Wholesale
# Mexico City

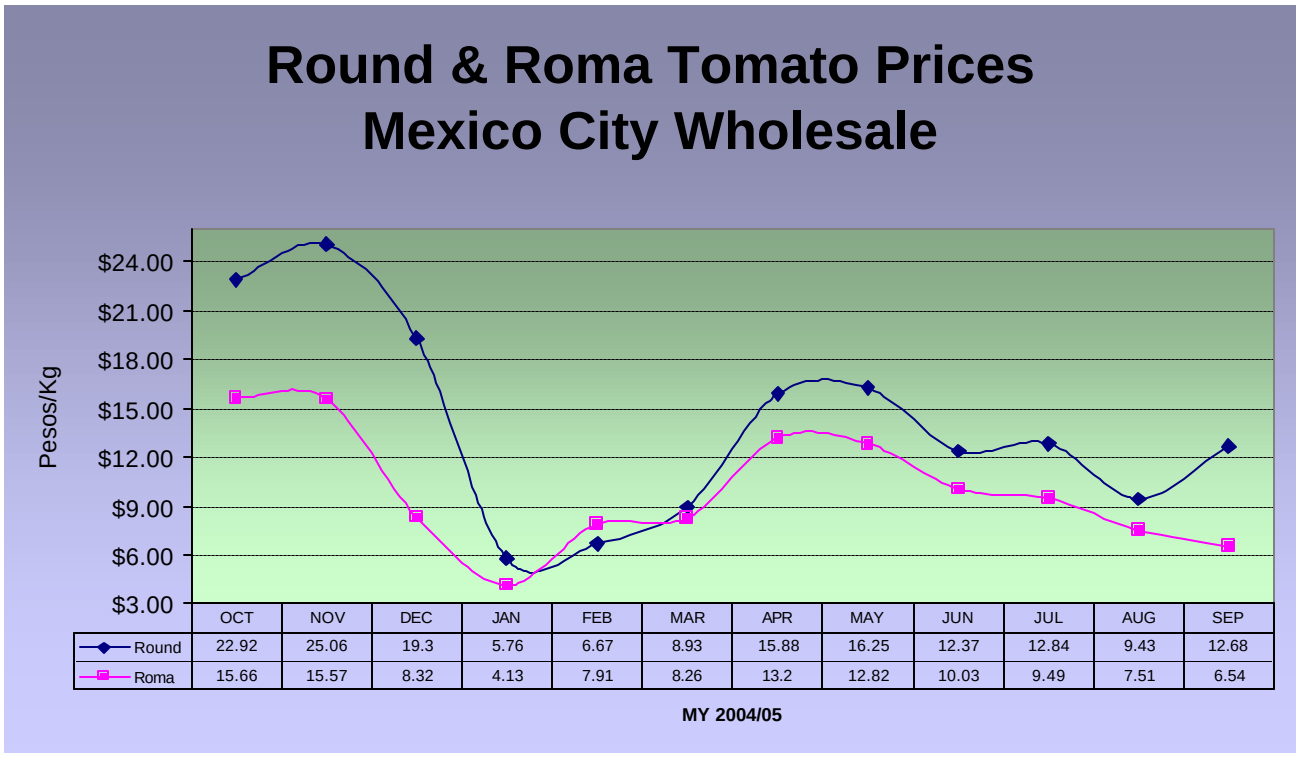



| | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MY-04/05 | 15.66 | 15.57 | 8.32 | 4.13 | 7.91 | 8.26 | 13.2 | 12.82 | 10.03 | 9.49 | 7.51 | 6.54 |
| MY-05/06 | 5.43 | 5.68 | 10.44 | 13.93 | 11.04 | 7.63 | 9.83 | | | | | |

# Round Tomato Prices Mexico City
# Wholesale




| | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MY-04/05 | 22.92 | 25.06 | 19.3 | 5.76 | 6.67 | 8.93 | 15.88 | 16.25 | 12.37 | 12.84 | 9.43 | 12.68 |
| MY-05/06 | 118 | 10.27 | 16.7 | 18.44 | 12.04 | 8.37 | 10.46 | 10.46 | | | | |




| | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Round | 22.92 | 25.06 | 19.3 | 5.76 | 6.67 | 8.93 | 15.88 | 16.25 | 12.37 | 12.84 | 9.43 | 12.68 |
| Roma | 15.66 | 15.57 | 8.32 | 4.13 | 7.91 | 8.26 | 13.2 | 12.82 | 10.03 | 9.49 | 7.51 | 6.54 |

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

### FRESH TOMATOES

### PRODUCTION

The Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) has not yet released information on Mexico's overall tomato production forecast for MY 2006/07 (October/September). However, FAS/Mexico estimates that MY 2006/07 production could reach 2.26 million metric tons (MMT), about seven percent greater than MY 2005/06 estimates. The overall tomato production for MY 2005/06 is estimated to be 2.12 MMT. This estimate is lower than what producers originally expected because unfavorable weather conditions led to lower than normal yields. According to producers, average tomato yield per hectare is expected to be lower in MY 2005/06, compared to MY 2004/05, as a result of rainfall and cold temperatures in Zacatecas, San Luis Potosí, and Michoacan during December/January 2006, and rainfall and phytosanitary problems in Sinaloa. Tomato production data for MY 2004/05 was revised upward, based on official data.

Total planted area for tomatoes tends to remain fairly stable from year-to-year because growers are experiencing expansion constraints as a result of the high cost of production, which is largely a function of international exchange rates and limited water availability. MY 2006/07 area planted is expected to reach 74,500 hectares, a slight increase over MY 2005/06, which is estimated at 72,000 hectares. MY 2005/06 production area was lower than MY 2004/05 because of unfavorable weather conditions. Producers report that weather is only one of many factors that affect year-to-year plantings. Production area also tends to increase or decrease depending on domestic and international tomato prices, as well as demand for different tomato varieties. Much of the area that was previously devoted to processing has been shifted to fresh tomato production, as demand for processing tomatoes has declined significantly.

Phytosanitary problems remain a concern amongst tomato producers, especially in the State of Sinaloa, where an outbreak of white fly damaged horticulture, cotton, and bean crops during the 2005/06 winter production season. Sinaloa agricultural authorities, together with agricultural producers, are working to find a solution to control the white fly plague. They are hopeful that some mitigation measures can be implemented in the coming year, which will allow for a rebound in agricultural production in that state.

Mexico produces greenhouse tomatoes in several states. According to the Mexican Greenhouse Horticultural Growers Association (AMPHI), in 2003 total greenhouse area planted was roughly 1,300 hectares, 70 percent of which was devoted to tomato production (Round, Rome, Cherry and other varieties). The AMPHI is forecasting greenhouse production area to increase to close to 3,000 hectares for 2005/2006. Yields tend to vary significantly among producers, variety, and state. According to industry sources, greenhouse tomato yields range from 156 MT/ha to 276 MT/ha. Although greenhouse operations are concentrated in Baja California, Baja California Sur, Jalisco, and Sinaloa, there is also some greenhouse production in the States of Colima, Mexico, Hidalgo, Michoacán, Querétaro, San Luis Potosí, and Zacatecas. Most of the production from greenhouses is destined for export markets, as prices on the international market tend to be significantly higher.

During the winter season (October - May) growers in the State of Sinaloa are the main producers and exporters of tomatoes. Other significant producers are the States of Michoacan, Jalisco, and Baja California Sur. Sinaloa growers expect that the use of improved and extended shelf varieties, drip irrigation, and plastic mulch will help maintain their high yield levels. During the summer season (May – October), growers in Baja California are the

main producers and exporters of tomatoes. Baja California's production is followed by the States of Michoacan, Jalisco, and Morelos. Producers in both Sinaloa and Baja California are more technologically advanced than other producing states. U.S. California tomatoes face direct competition from Baja California tomatoes, both internationally and domestically. Over the past several years producers from Jalisco have begun to increase their planted acreage. This increase is largely attributable to their success in exporting to the United States. Growers in Jalisco produce tomatoes for the summer cycle, and usually export after Baja California in October, November, and December.

Tomato production costs remain high across the country. According to growers, imported agrochemicals, seeds, and fertilizers are the most costly inputs. Fresh tomato production costs for MY 2004/05 varied from $35,000 to $45,000 pesos/ha (U.S. $3,173.16 to $4,079.78/ha) in the States of Sinaloa and Baja California, which produce for both domestic and export purposes. The cost of production depends largely on the value of the peso against the dollar, as many inputs are imported from the United States. Lack of credit is also a constraining factor for growers, as Mexican banks do not provide loans for tomato production. Producers with export contracts may receive some operating capital from contracting companies in the United States. Both producers and officials within the Mexican Ministry of Agriculture are very cognizant of the importance of meeting quality standards for fruits and vegetables and have implemented programs to comply with U.S. food safety requirements.

MY 2005/06 average fresh tomato yields are forecast at 31.1 MT/ha. Individual yields vary depending on 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 realize significantly lower yields, 16 to 30 MT/ha. This is mostly attributable to less intensive use of quality inputs and less effective pest control programs. Due to favorable weather conditions overall yields for tomatoes for MY 2004/05 were fairly high at about 31.4 MT/ha.

In December 2005 grower prices in Sinaloa for round tomatoes began at approximately $2.50 pesos/kg (U.S. $0.22/kg), and increased to about $2.70 pesos/kg (U.S. $0.24/kg) by April 2006, at the height of the export season. Weather and phytosanitary problems in Sinaloa led to reduced production, and Sinaloa producers were not able to meet market demand for late December 2005 and January 2006, as they typically do. Producers in the States of Michoacan, Nayarit, and Mexico seized upon this opportunity and supplied the market at slightly higher prices compared to 2005 prices. Grower prices for Roma tomatoes from Sinaloa were approximately $1.35 pesos/kg (U.S. $0.12/kg) in December 2005, and decreased slightly to $1.10 pesos/kg (U.S. $0.10/kg) by April 2006. Statistically there is a tendency for round tomato prices to follow Roma tomato prices. So, whenever Roma prices begin to decline so do round tomato prices, regardless of the supply situation.

**CONSUMPTION**

Tomato consumption for MY 2005/06 is expected to be slightly lower compared to MY 2004/05. Tomatoes consumption is very price sensitive in Mexico, thus marginal changes in prices tend to lead to significant changes in demand. However, the final tomato consumption figure will largely depend on tomato exports to the United States, since domestic consumption is basically a residual after exports. Tomato consumption for MY 2004/05 was higher than the previous forecast due to greater domestic demand, stimulated by more competitive prices. However, during the months of March/July domestic demand was lower due to higher prices and greater demand on the international market. Though greenhouse production is limited, and tends to be priced higher, the market has now the option of

meeting some of the domestic demand with greenhouse tomatoes when the open field crop dwindles, or is destined for the export market.

During March, April, and May, local tomato prices tend to rise because of increased exports from the State of Sinaloa, which in turn reduces supply on the domestic market. Exports also increase from June to August, as this is Baja California's international market window. By the end of November and December, tomato prices usually rise again, due to an increased rate of exports from the States of Jalisco and Sinaloa. The tomato paste industry has always bought tomatoes from the fresh market in addition to buying contracted tomatoes for processing. However, price competition in the fresh market has developed into a real problem for the processing industry. Over the past several years relatively high fresh tomato prices have diverted product away from the processed market. Thus, in recent years there has been very little industry demand for tomatoes destined to paste production, as it is more economically feasible to import tomato paste rather than to produce it domestically.

**TRADE**

According to Mexican trade data, Mexico exported 854,771 MT to the United States during MY 2004/05 (Oct/Sept). This increase was largely attributable to high international prices and favorable weather conditions, which stimulated yields. MY 2005/06 exports are expected to be 10-15% lower compared to MY 2004/05 because of the unfavorable weather and phytosanitary problems that reduced supply during the winter crop production cycle. According to growers, international prices were relatively high in December/January 2006, but by March 2006 had dropped measurably as a strong Florida crop entered the market. Over 95 percent of all tomato exports go to the United States.

The Tomato Suspension Agreement between Mexico and the United States, signed on December 4, 2002, binds all tomato exporters to an agreed reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2 cents per pound, and the reference price for the winter season (October 23 to June 30) is 21.69 cents per pound. According to growers, tomato prices for MY 2004/05 and 2005/06 have been well above the reference prices. Fresh tomato exports to the U.S. have a zero duty under NAFTA. Tomato tariff classification numbers are 07.02.002, 07.02.004, and 07.02.006.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption, and fluctuate depending on international prices and domestic availability. According to importers, MY 2005/06 tomato imports have been slow, but they are expected to increase from June to September. Most of the imported tomatoes are sold in the northern States of Nuevo Leon, Sonora, Baja California, and Chihuahua. The States of Jalisco and Mexico also sell imported product, but to a much lesser extent. Mexico imported 21,698 MT in MY 2004/05, 30 percent lower compared to MY 2003/04 imports. This decrease was due to greater supplies of competitively priced domestically produced tomatoes, and strong demand for U.S. tomatoes in the United States.

Strict phytosanitary import rules have also limited U.S. tomato exports to Mexico. SAGARPA currently stipulates a 5% stem and leaf tolerance on tomatoes from the U.S. The U.S. horticultural industry has been working to either increase this tolerance or to harmonize with the other NAFTA partners and eliminate the stem and leaf tolerance rule entirely. In the spring of 2006 SAGARPA agreed to revise the stem and leaf tolerance requirement. On May 16, 2006 SAGARPA submitted a request for a phytosanitary rule change for U.S. tomatoes to the Federal Regulation Improvement Commission (COFEMER). As of publication, COFEMER was considering this change, though there is no definite timeframe for when they may publish their final decision.

## MARKETING

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through various wholesale markets throughout Mexico, and from there to the large supermarkets and retail stores. A few stores, including a major U.S. based retail chain, import directly without going through the wholesale market channels, but this is still somewhat rare since most retail operations do not have import expertise. In the past, promotional campaigns for U.S. tomatoes have focused on proper tomato handling (e.g., how to ripen green tomatoes, etc.), point of sale material, and in-store promotions. During the 2005 season in-store promotions took place in 14 supermarkets chains and 240 stores in a total of 18 cities throughout Mexico. The promotional campaigns concentrate on importers in the northern border cities, as larger volumes of tomatoes tend to be bought there. Tomatoes for the export market are shipped directly from the producing areas to the U.S. border.

## TOMATO PASTE

## PRODUCTION

Tomato paste production in Mexico has become increasingly less profitable over the last four years. Increased input costs, primarily higher fresh tomato prices, and lower international prices, have forced the industry to import tomato paste rather than produce it domestically. Of the paste manufacturers in Mexico, only a few produce paste for the domestic market. The rest produce for export, mainly to the U.S. Tomato paste production data is not readily available, as only a few producers provide accurate – and then only -- partial data.

MY 2005/2006 (March/February) tomato paste production estimates were revised downward as production costs remained high and international prices continued to fall. Tomato paste production for MY 2006/07 and MY 2007/08 is forecast to continue at very low levels due to expectations that most domestically grown tomatoes will be channeled into the fresh market, and international paste prices will remain low.

Planting and harvesting for processing tomatoes is largely a function of fresh domestic market prices and international tomato paste prices. Area that was previously devoted to planting tomatoes for the processing industry was shifted to the fresh market, as demand for processing tomatoes has declined in the face of high fresh market prices. Area planted and harvested for tomatoes for processing for MY 2004/05 was revised downward, reflecting a reduction in tomato paste production in Mexico. MY 2005/06 and 2006/07 area planted for tomatoes for processing is estimated to continue on a downward trend. Yields for this type of tomatoes range from 30 MT/ha to about 40 MT/ha, given normal weather conditions. The balance of tomatoes for the processing industry is bought in the fresh market when needed.

In addition to international demand, Mexican tomato paste production is largely dependent on fresh tomato production. When international demand for fresh tomatoes is high, processing tomatoes are often diverted to the domestic fresh market, or the fresh export market. When international tomato prices are low, a greater supply of tomatoes is available to the processing industry. However, if international demand for tomato paste is low, there is still no reason for the domestic processing industry to increase supply. The domestic processing industry has been deeply impacted by low international tomato paste prices. Higher prices for domestically produced tomatoes and high production costs have also stimulated the increase in imported tomato paste.

Most plants operate from March through June. Seven tomato paste-processing plants, which constitute the majority of the Mexican tomato paste industry, are located in Sinaloa. These plants are owned by both Mexican and multinational firms. Due to the current international price situation, only one or two plants are still producing tomato paste. The other plants process fresh tomato into tomato sauces or tomato-containing products. Companies that import tomato paste market it under their own labels and manufacture products such as ketchup, tomato-based juices, sauce, hot sauce, sardines, and other paste-containing products.

**CONSUMPTION**

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

Prior to 2000, the domestic market acted as a buffer for large supplies of tomato paste when companies were producing at higher levels. However, since 2000, when companies started to reduce tomato paste production from the record-high levels of 30,000 to 40,000 MT, domestic consumption has been met through imports.

Tomato paste consumption for MY 2005/06 was revised upward to 51,181 MT due to an increase in demand from the different industries producing tomato-based products. Most of this demand is being met by imported product. Tomato paste consumption estimates for MY 2006/07 are expected to remain high. However, sources indicate that weather conditions in the U.S. might reduce production of fresh tomatoes, thereby increasing paste prices, which may negatively impacting demand. MY 2007/08 tomato paste consumption is expected to increase compared to MY 2006/07 consumption as long as international prices continue to be competitive. High capital costs and the lack of adequate storage tend to encourage processors to sell excess supplies on the domestic market rather than to maintain inventories.

According to the industry, tomato paste destined to the dehydration industry has increased between 6,000 to 8,000 MT per year. The dehydration industry processes tomato paste mostly into tomato powder that is in turn exported.

**TRADE**

Mexico's possibilities of increasing its tomato paste exports have dwindled in the face of competition from the United States. In addition, China's access to the international market has put downward pressure on international prices. Official Mexican data shows that MY 2005/06 tomato paste exports are about 6,534 MT, mostly destined for the U.S. However, U.S. trade import data shows that no imports were made from Mexico. The Mexican industry also confirmed that during MY 2005/06 practically no tomato paste was produced in Mexico. Thus, there is a significant discrepancy between U.S. and Mexican tomato past trade data. Tomato paste exports for MY 2006/07 and 2007/08 are expected to remain low as international prices continue to be attractive. The few exports are produced on a contract basis with U.S. firms.

As domestic tomato paste production has decreased, tomato paste imports have increased during the last four years to meet consumer and food processing demand. Tomato paste imports in MY 2005/06 were revised upward from previous estimates to 54,944 MT, a record high level of imports, mainly driven by greater demand and competitive international prices. According to Mexican trade data, imports from Chile increased from 3,308 MT in MY 2004/05 to 16,940 MT in MY 2005/06. The industry estimates that MY 2006/07 international tomato

paste prices may increase significantly due to unfavorable weather conditions for tomato production in the U.S. Therefore import estimates are lower for MY 2006/07. However if domestic demand remains strong, Chile could cover the Mexican market. MY 2007/08 tomato paste imports are expected to increase to 50,000 MT if international prices are favorable. According to industry sources, most tomato paste is imported from the United States, Chile, and China. Imports include tomato paste destined for the dehydration industry.

Tomato paste imports were on average U.S. $0.28 to 0.29/lb for MY 2005/06 FOB California, while exports prices were about U.S. $0.32/lb or more. Tomato paste imports are subject to a 20-percent duty from all non-NAFTA suppliers. Imports from the United States and Chile have a zero duty. The tariff classification code is 20.02.90.99.