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Citrus

Citrus Report

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Report Highlights:

MY 2008/09 production of fresh oranges is forecast to be 10 percent lower due to dry weather conditions in the northern states of Mexico. However, production for Key limes and Persian limes is forecast to increase due to overall better weather conditions. Grapefruit production for MY 2008/09 is forecast to be marginally higher than MY 2007/08, although less grapefruit is expected from the northern parts of Mexico (especially Nuevo Leon) due to dryer weather conditions. Lower FCOJ production levels for MY 2009 (January-December) are forecast due to low international prices.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

MY 2008/09 production of fresh oranges is forecast at lower levels compared to MY 2007/08 as the northern states in Mexico experienced dryer weather conditions. Mexican orange exports are forecast to remain at similar export levels of MY 2007/08 unless there is more demand from the international markets. However, the final export figures will depend on U.S. demand.

Total MY 2008/09 production for Key and Persian limes is forecast at 1.92 MMT due to expected better weather conditions. Persian and Key lime exports for MY 2008/09 are forecast to increase slightly from previous marketing years as the groves in Veracruz recuperated from the hurricane damage. However, exports depend heavily on international demand from the United States.

Grapefruit production for MY 2008/09 is forecast to be marginally higher compared to MY 2007/08 due to acreage coming into production and better weather conditions. However, less grapefruit is expected from the northern parts of Mexico, Nuevo Leon, due to dryer weather conditions. Grapefruit exports for MY 2008/09 are forecast to remain near MY 2007/08 levels due to dry weather conditions.

Reliable frozen concentrate orange juice (FCOJ) production numbers are difficult to obtain since there is no official statistical data available. However, according to industry sources, FCOJ production for MY 2009 (January-December) is forecast to decrease to 60,000 MT levels, as long as enough fresh oranges are available for the processing industry. Exports of FCOJ for MY 2009 are forecast to be lower compared to MY 2008 due to low international prices and a weaker demand.

FAS/Mexico believes that the dry weather conditions will affect mainly orange and grapefruit production from the northern states, mainly Nuevo Leon, Tamaulipas, and the northern part of Veracruz. Production from the other states is expected to be good overall. Likewise, overall Persian lime production might not be affected from the dry weather season in northern Veracruz as there are many flowerings that override this situation. In general, the most affected product will be FCOJ production since international prices depress the profit margins for companies. Although citrus imports are not very significant compared to production, it could be affected by the weakening of the Mexican peso relative to the U.S. dollar.¹

¹ According to the Diario Oficial, the exchange rate used in this report was the average exchange rate for 2007, 10.92 pesos to a dollar.

SECTION II. STATISTICAL TABLES

Fresh Orange Table

Oranges, Fresh Mexico Has 1000 trees 1000 tons	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Nov 2006			Market Year Begin: Nov 2007			Market Year Begin: Nov 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	337000	337000	336234	337000	337000	340000			341000
Area Harvested	322000	322000	330290	323000	323000	332000			332000
Bearing Trees	65044	65044	66718	65246	65246	67064			67064
Non-Bearing Trees	3030	3030	1200	2828	2828	1600			1800
Total No. Of Trees	68074	68074	67918	68074	68074	68664			68864
Production	4000	4000	4248	4000	4000	4300			3900
Imports	25	25	18	25	25	21			21
Total Supply	4025	4025	4266	4025	4025	4321			3921
Exports, Fresh	27	27	29	13	13	23			23
Fresh Dom. Consumption	3413	3413	3537	3432	3432	3398			3298
For Processing	585	585	700	580	580	900			600
Total Distribution	4025	4025	4266	4025	4025	4321			3921

Fresh Citrus, Other Table

Citrus, Other, Fresh Mexico Has 1000 trees 1000 tons	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Nov 2006			Market Year Begin: Nov 2007			Market Year Begin: Nov 2008		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	150000	150000	151267	150300	150300	152000			152500
Area Harvested	138500	138500	144000	139000	139000	144200			144500
Bearing Trees	27000	27000	28080	27100	27100	28119			28177
Non-Bearing Trees	2242	2242	1417	2203	2203	1521			1560
Total No. Of Trees	29242	29242	29497	29303	29303	29640			29737
Production	2000	2000	1922	2000	2000	1850			1920
Imports	1	1	1	1	1	1			1
Total Supply	2001	2001	1923	2001	2001	1851			1921
Exports, Fresh	450	450	458	445	445	448			460
Fresh Dom. Consumption	1231	1231	1158	1232	1232	1107			1154
For Processing	320	320	307	324	324	296			307
Total Distribution	2001	2001	1923	2001	2001	1851			1921

Fresh Grapefruit Table

Grapefruit, Fresh Mexico Has 1000 trees 1000 tons	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Nov 2006			Market Year Begin: Nov 2007			Market Year Begin: Nov 2008		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Planted	17,465	17,465	17,411	17,470	17,470	18,000			18,500
Area Harvested	15,480	15,480	16,245	15,680	15,680	16,900			17,300
Bearing Trees	2,786	2,786	2,924	2,822	2,822	3,042			3,114
Non-Bearing Trees	357	357	210	322	322	198			216
Total No. Of Trees	3,143	3,143	3,134	3,144	3,144	3,240			3,330
Production	371	371	313	380	380	324			328
Imports	8	8	9	8	8	10			13
Total Supply	379	379	322	388	388	334			341
Exports, Fresh	12	12	12	12	12	12			12
Fresh Dom. Consumption	256	256	230	276	276	222			219
For Processing	111	111	80	100	100	100			110
Total Distribution	379	379	322	388	388	334			341

Frozen Concentrate Orange Juice

Orange Juice Mexico MT 65 degree Brix	2006			2007			2008		
	2006/2007			2007/2008			2008/2009		
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Deliv. To Processors	585000	585000	700000	580000	580000	900000			600000
Beginning Stocks	1000	1000	1000	1000	1000	1000			1000
Production	58500	58500	70000	58000	58000	90000			60000
Imports	1000	1000	1200	1000	1000	1000			1000
Total Supply	60500	60500	72200	60000	60000	92000			62000
Exports	53000	53000	64700	52500	52500	84500			54500
Domestic Consumption	6500	6500	6500	6500	6500	6500			6500
Ending Stocks	1000	1000	1000	1000	1000	1000			1000
Total Distribution	60500	60500	72200	60000	60000	92000			62000

Trade Matrixes

Fresh Concentrate Orange Juice

Fresh Concentrate Orange Juice 2009.11		Unit: Litres	
Exports for MY 2007 (Jan-Dec) to:		Imports for MY 2007 (Jan-Dec) from:	
U.S.	38,285,586	U.S.	597,470
NETHERLANDS	3,692,940	BRAZIL	3,634
JAPAN	1,933,299	TOTAL OF OTHER	3,634
OTHER NOT LISTED	3,627,202	OTHER NOT LISTED	255
TOTAL	47,539,027	TOTAL	601,359

Fresh Concentrate Orange Juice 2009.11		Unit: Litres	
Exports for MY 2008 (Jan-Dec*) to:		Imports for MY 2008 (Jan-Dec*) from:	
U.S.	39,307,331	U.S.	534,030
NETHERLANDS	9,815,692	BRAZIL	
VENEZUELA	1,681,803	TOTAL OF OTHER	
OTHER NOT LISTED	2,745,462	OTHER NOT LISTED	
TOTAL	55,232,091	TOTAL	534,030

* as of July, 2008.

Orange Juice, Not Frozen

Orange Juice, Not Frozen 2009.19		Unit: Liters	
Exports for MY 2007 (Jan-Dec) to:		Imports for MY 2007 (Jan-Dec) from:	
U.S.	9,101,349	U.S.	2,247,863
ECUADOR	151,240	BRAZIL	16,994
TOTAL OF OTHER	151,240	TOTAL OF OTHER	16,994
OTHER NOT LISTED	73,040	OTHER NOT LISTED	1,872
TOTAL	9,325,629	TOTAL	2,266,729

Orange Juice, Not Frozen 2009.19		Unit: Liters	
Exports for MY 2008 (Jan-Dec*) to:		Imports for MY 2008 (Jan-Dec*) from:	
U.S.	8,548,726	U.S.	1,273,797
NETHERLANDS	573,817	BRAZIL	97,282
TOTAL OF OTHER	573,827	TOTAL OF OTHER	97,282
OTHER NOT LISTED	191,422	OTHER NOT LISTED	11,277
TOTAL	9,313,965		1,382,356

*as of July, 2008.

Fresh Table Oranges

Table Oranges 0805.10		Unit: Metric Tons	
Exports for MY 2006/07 (Nov-Oct) to:		Imports for MY 2006/07 (Nov-Oct) from:	
U.S.	24,410,664	U.S.	18,232,788
UNITED KINGDOM	2,416,490	ARGENTINA	0
TOTAL OF OTHER	2,416,490		
OTHER NOT LISTED	1,879,956	OTHER	
TOTAL	28,707,110	TOTAL	18,232,788

Table Oranges 0805.10		Unit: Metric Tons	
Exports for MY 2007/08 (Nov-Oct*) to:		Imports for MY 2007/08 (Nov-Oct*) from:	
U.S.	16,592,480	U.S.	19,962,492
UNITED KINGDOM	3,388,500		
TOTAL OF OTHER	3,388,50		
OTHER NOT LISTED	1,817,923	OTHER	
TOTAL	21,798,903	TOTAL	19,962,492

*as of July, 2008.

Other Citrus

Other Citrus 0805.50		Unit: Metric Tons	
Exports for MY 2006/07 (Nov-Oct) to:		Imports for MY 2007/08 (Nov-Oct) from:	
U.S.	435,263,836	U.S.	818,319
CANADA	5,554,714		
TOTAL OF OTHER	5,554,714		
OTHER NOT LISTED	17,343,771	OTHER	0
TOTAL	458,162,321	TOTAL	818,319

Other Citrus 0805.50		Unit: Metric Tons	
Exports for MY 2007/08 (Nov-Oct*) to:		Imports for MY 2007/08 (Nov-Oct*) from:	
U.S.	361,986,925	U.S.	276,892
NETHERLANDS	4,685,940		
TOTAL OF OTHER	4,685,940		
OTHER NOT LISTED	9,748,223	OTHER	0
TOTAL	376,421,088	TOTAL	276,892

*as of July, 2008.

Grapefruit

Grapefruit 0805.40		Unit: Metric Tons	
Exports for MY 2006/07 (Nov-Oct) to:		Imports for MY 2006/07 (Nov-Oct) from:	
U.S.	1,657,326	U.S.	8,501,419
FRANCE	5,435,343		
TOTAL OF OTHER	5,435,343	ISRAEL	0
OTHER NOT LISTED	6,336,073	OTHER	0
TOTAL	11,937,148	TOTAL	8,501,419

Grapefruit 0805.40		Unit: Metric Tons	
Exports for MY 2007/08 (Nov-Oct*) to:		Imports for MY 2007/08 (Nov-Oct*) from:	
U.S.	147,855	U.S.	9,332,950
FRANCE	1,914,775		
TOTAL OF OTHER	1,914,775		
OTHER NOT LISTED	1,676,839	OTHER	0
TOTAL	3,739,469	TOTAL	9,332,950

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, July 2008.

Wholesale Orange Prices

WHOLESALE ORANGE PRICES (PESOS/KG)				
CIF MEXICO CITY				
Month	2006	2007	2008	Change % 07/08
January	2.06	2.18	2.16	(0.92)
February	1.80	2.28	2.13	(6.58)
March	2.00	2.37	2.14	(9.70)
April	2.35	3.15	2.28	(27.62)
May	2.93	3.71	2.64	(28.84)
June	3.49	4.58	3.08	(32.75)
July	5.03	6.43	3.04	(52.72)
August	4.71	6.80	2.60	(61.76)
September	3.72	5.79	2.38	(58.89)
October	2.42	3.70	2.25*	(39.19)
November	2.15	2.96	N/A	N/A
December	2.24	2.23	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
 AVR. EXCHANGE RATE FOR 2007 US\$1.00 = \$ 10.92 PESOS
 EXCHANGE RATE OCTOBER 28, 2008 US\$1.00 = \$ 13.30 PESOS
 *Data as of 3rd week October 2008

Key Lime Wholesale Prices

KEY LIME WHOLESALE PRICES (PESOS/KG)			
CIF MEXICO CITY			
Month	2007	2008	Change %
January	3.58	5.59	56.14
February	5.23	5.46	4.40
March	8.12	3.04	(62.56)
April	5.24	2.11	(59.73)
May	2.12	2.00	(5.66)
June	1.93	2.16	11.91
July	2.49	2.31	(7.23)
August	2.79	2.33	(16.48)
September	2.75	2.45	(10.91)
October	2.66	2.25*	(15.41)
November	3.20	N/A	N/A
December	5.94	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
 AVR. EXCHANGE RATE FOR 2007 US\$1.00 = \$ 10.92 PESOS
 EXCHANGE RATE OCT. 28, 2008 US\$1.00 = \$ 13.30 PESOS
 *As of 3rd week October 2008

Persian Lime Wholesale Prices

PERSIAN LIME WHOLESALE PRICES (PESOS/KG)			
CIF MEXICO CITY			
Month	2007	2008	Change %
January	3.09	6.63	114.56
February	5.61	7.07	26.02
March	8.63	7.49	(13.21)
April	10.13	8.38	(17.27)
May	5.46	4.55	(16.67)
June	2.84	2.78	(2.11)
July	2.16	2.41	11.57
August	2.30	2.32	0.87
September	3.62	3.01	(16.85)
October	3.43	2.72*	(20.70)
November	4.20	N/A	N/A
December	4.21	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
 AVR. EXCHANGE RATE FOR 2007 US\$1.00 = \$ 10.92 PESOS
 EXCHANGE RATE OCT. 28, 2008 US\$1.00 = \$ 13.30 PESOS
 *As of 3rd week October 2008

SECTION III. NARRATIVE ON SUPPLY & DEMAND, POLICY & MARKETING**FRESH ORANGES****PRODUCTION**

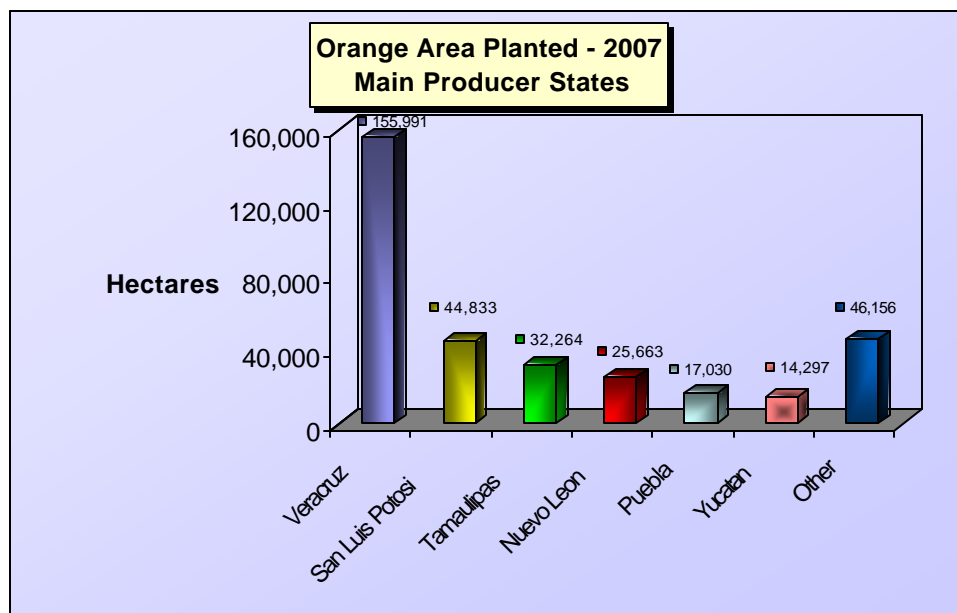
There is not yet an official forecast from the Government of Mexico (GOM) for MY 2008/09 (November-October) fresh orange production, but according to industry sources, production is forecast to be approximately 10 percent lower from MY 2007/08 production. Orange production from the northern states of Mexico has been affected by dry weather conditions, which will reduce the crop size. For example, Veracruz, the largest orange producing state could see a 15 to 20 percent reduction, and Nuevo Leon and Tamaulipas expect close to a 30 percent decrease compared to MY 2007/08 orange production.

Fresh orange production estimates for MY 2007/08 were revised upwards about 7.5 percent from previous estimates based on official data. Although, there were some citrus areas in Veracruz with little production (Martinez de la Torre, Tecolutla, Gutierrez Zamora), due to storms and hurricanes during August and October 2007, the overall production was good. Domestic market demand was covered throughout the year and even during the normal low season months (May-August), production was higher than expected. MY 2006/07 fresh orange production estimates were also revised upward based on official data. Some producers estimate the harvest could have been slightly higher, but some areas in northern Veracruz were affected by Hurricanes Dean and Felix diminishing the last part of the crop.

Area planted and harvested for MY 2008/09 is not expected to increase much over the MY 2007/08 area due to a general economic uncertainty and an expected slowdown in domestic economic growth. Area planted and harvested for MY 2007/08 was revised upward as some specific areas in Mexico invested in area planted. Some grower's associations planted more orange trees to reconvert low yield crops to orange trees as is the case in Baja California Sur and Sonora, and to spur new development projects as is the case in the state of Yucatan. However, some growers have been abandoning groves, or switching to other crops, due to high production costs, wide swings in fresh orange prices, unfavorable weather and marketing problems. Historical increases in orange production have been predominantly due to increased tree density, rather than an expansion in area planted. Area planted and harvested for MY 2006/07 was updated based on official data.

Country-wide, orange yields for MY 2008/09 are forecast to be slightly lower, approximately 11.7 MT/ha, compared to MY 2007/08 yields due to a drier season in the northern states. MY 2007/08 yields are estimated at 12.9 MT/ha. Orange yields differ widely depending on the production area. Typically, Veracruz's yields range from 10 to 20 MT/ha. Yields in Nuevo Leon range from 12 to 15 MT/ha and, in San Luis Potosi, yields range from 7 to 13 MT/ha. This variance in yields is caused by many factors, including: weather, frequency of fertilizer and pesticide applications, tree density, and quality of terrain.

FIGURE 1. MEXICO: ORANGE AREA PLANTED FOR 2007



The MY 2008/29 forecast for oranges destined for processing is expected to decrease 33 percent compared to MY 2007/08, due to a fall in international prices for frozen concentrate orange juice (FCOJ) and an expected lower production of oranges in the country, mainly Veracruz. The estimates for MY 2006/07 and MY 2007/08 of oranges destined for processing were revised upward as the market experienced an unprecedented surge in FCOJ prices that allowed for better industry profit margins.

Production costs vary amongst citrus regions and producers. The average cost of production for a traditional grove with little intensive cultivation in Veracruz is approximately \$5,000 to \$7,000 pesos/ha (U.S. \$457.87/ha to \$641.02/ha), while the cost for a more intensively-farmed grove in Veracruz is \$7,000 pesos/ha to \$10,000 (U.S. \$641.02/ha to \$915.75/ha) or higher. Costs in Nuevo Leon range from \$7,000 to \$13,000 pesos/ha (U.S. \$641.02/ha to \$1,190.47/ha) and is generally higher than those in Veracruz. Higher production costs are primarily attributed to irrigation, fertilizer use and pest control. These last two inputs account for approximately 40 percent of total production costs in Nuevo Leon. This state has been striving to be recognized as free of fruit fly area, and some areas have just (October 31, 2008) been given that recognition², which means maintaining good pest control mechanisms. In general, higher costs of pesticides and herbicides could lead producers to use fewer applications per hectare which could impact fruit production and quality for 2010. Average field worker wages are about \$70 pesos (U.S. \$6.41) per day, but often producers have to pay \$90 pesos (U.S. \$8.24) per day or more to attract a sufficient number of workers.

Farm gate prices in Nuevo Leon was approximately \$1,500 pesos MT (U.S.\$122.85/MT exchange rate *Peso/US\$* -12.21) for the Marsh variety during October 2008, and prices for Veracruz are expected to be \$800 to \$1,000/MT (U.S. \$65.52 to \$81.90/MT exchange rate

² The Secretariat of Agriculture announced in the *Diario Oficial* (Federal Register) on October 31, 2008, that 19 counties in Nuevo Leon had been declared free of fruit fly (*ANASTREPHA*), some of them with citrus plantings.

peso/US\$ -12.21). Prices were lower during 2008 compared to 2007, but since a lower crop is expected for MY 2008/09, prices are expected to be slightly higher for Valencia oranges, which are harvested after December. Afterwards, prices could change depending on demand from the processing industry. Transportation costs from Veracruz to Mexico City are usually \$3,000 to \$3,500 pesos per 10 MT (U.S. \$274.72 to \$320.51 per 10 MT) for one-day delivery. Transportation costs have increased due to gas price increases.

CONSUMPTION

Fresh orange consumption for MY 2008/09 is forecast to be approximately three percent lower compared to MY 2007/08 consumption levels due to an expected reduction in consumer purchasing power. Lower volumes of fresh oranges at higher prices could also slow down consumption. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. However, final domestic consumption estimates will depend on the final volume of oranges purchased by the processing industry and the margins between domestic orange prices and international juice prices. The fresh orange consumption estimate for MY 2007/08 has been revised downward from previous estimates as the processing industry attracted more oranges for juice processing. MY 2006/07 orange consumption was revised upward due to a good demand and available prices.

Wholesale early Valencia orange prices from Veracruz for late October 2008 started at approximately \$2.32/kg (U.S. \$0.19/kg *exchange rate Peso/US\$ -12.21*), which is lower compared to the same time last year due to larger than expected supplies from an earlier bloom. However, higher prices are expected for the first quarter of 2009.

TRADE

Mexican orange exports for MY 2008/09 are forecast to remain at similar export levels of MY 2007/08, but the final export numbers will depend on U.S. demand and orange supplies from California and Florida. Exports for MY 2006/07 and MY 2007/08 were revised upward due to a higher demand from the United States and the opportunity that Mexico had while California had a damaged crop. Most of Mexico's oranges that are exported to the United States are from Sonora, a state that produces exceptionally high-quality oranges. In recent years, producers in Nuevo Leon have been increasing their orange exports to both the United States and Canada. The United States continues to be the largest export market for Mexican oranges.

Mexico signed a trade agreement on April 1, 2005, with Japan that included a duty-free annual quota of 10 MT of oranges for the first two years (i.e., MY 2005/06 and 2006/07). In MY 2007/08, the quota increased to 2,000 MT, followed by step increases of 1,000 MT each year until it reaches 4,000 MT in MY 2009/10. In the agreement, duties for oranges had to be re-negotiated for 2007. Mexico negotiated an improved MFN duty for oranges that started April 2007. However, Mexico has not taken advantage of this market since the United States is still a more attractive market for Mexico due to proximity.

Mexican orange imports for MY 2008/09 are forecast to be similar or lower to those of MY 2007/08, since they are expected to be more expensive because of the weakening of the Mexican peso relative to the U.S. dollar. Mexico is a price sensitive market, and U.S. orange prices are relatively high compared to the domestic product. The import estimate for MY 2006/07 and 2007/08 was revised downward due to lower demand from the border region and cheaper domestic fruit.

MARKETING

U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more sensitive to price than quality. This is one of the main reasons for limited exports of U.S. citrus products. Because of the excellent quality, U.S. oranges command a price four to five times higher than Mexican prices. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasizing quality rather than price. Due to phytosanitary restrictions, only citrus fruit coming from California, Texas, and Arizona can be exported to Mexico.

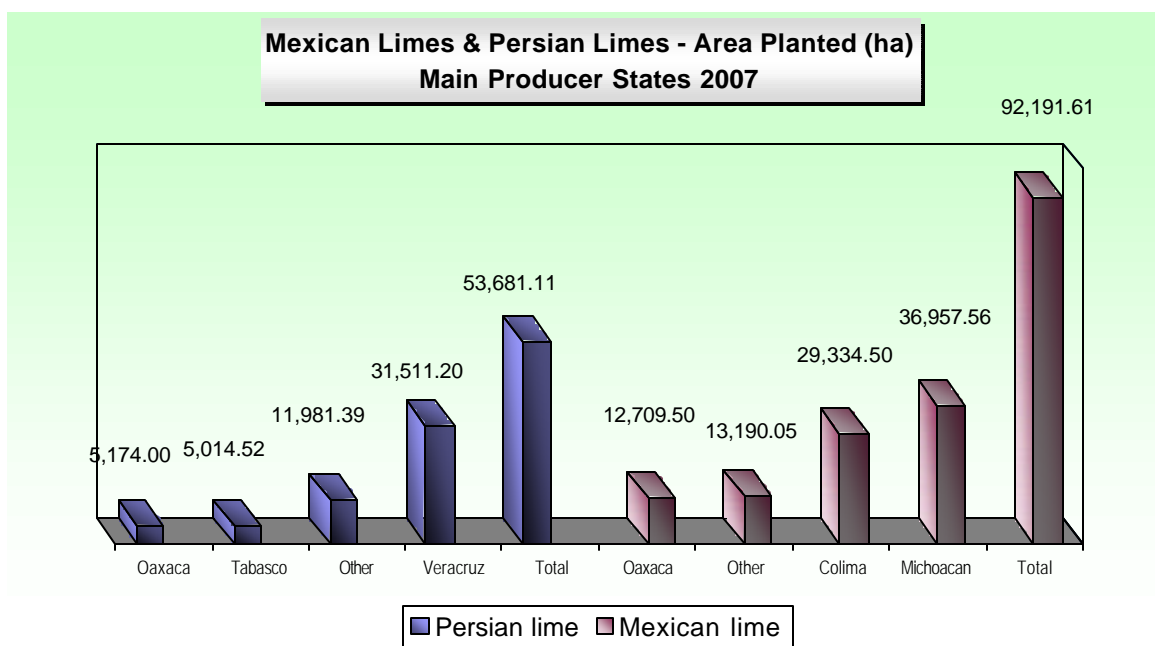
FRESH CITRUS, OTHER

PRODUCTION

Key limes and Persian limes are economically significant for Mexico. Mexican Key limes are grown mainly in the Pacific coast; in the states of Colima, Michoacán, Guerrero, and Oaxaca. Most Persian limes are grown in a micro-climate in northern Veracruz, followed on a smaller scale by Tabasco, Oaxaca, Puebla, and Yucatan.

Although there are no official GOM estimates, total MY 2008/09 production for both limes is forecast at 1.92 MMT, a year-to-year increase of 3.7 percent, due to expected better weather conditions. Although, Veracruz experienced some dry weather conditions during August 2008, according to growers, it did not affect Persian limes. Lime production for MY 2007/08 was revised downward from previous estimate, due to affected areas by storms and hurricanes in northern Veracruz that resulted in some losses. The MY 2006/07 production estimate was revised downward from the previous estimate based on final official data as areas were recuperating from past storms.

FIGURE 2. MEXICO: AREA PLANTED FOR LIMES 2007



Area planted to both Persian and Key limes has increased in Mexico due to the fact that limes command high prices in international markets and generates few phytosanitary concerns. Production of Persian limes planted in Veracruz has grown at a faster rate than Key limes. In fact, many producers have replaced orange and grapefruit groves with Persian limes in order to take advantage of strong international demand and higher prices. Key lime planted area has increased at lower rates due to swings in the domestic price.

Approximately 33 percent of total area planted is Persian limes, while 67 percent is Key limes. Michoacán has an excellent winter window (December – February), which allows its Key limes to hit the domestic market first; therefore, planted area has tended to expand more in this state. According to producers, the domestic market is nearly saturated with Key limes, and therefore a substantial increase in Michoacán's area planted could lower prices for Key limes in the international market. As a result, area planted for MY 2008/09 is forecast to continue growing but at slower rates. Estimates for area planted and harvested for MY 2006/07 and MY 2007/08 were revised upward from previous estimates. There were some increases in area planted in Veracruz, Michoacán and Colima.

Nearly 20 percent of the Persian lime groves in Veracruz use micro-jet irrigation, or other irrigation systems, and produce year-round. Most of the irrigated Key lime groves are in the states of Michoacán and Colima, and are also able to produce year-round. In contrast, almost all the planted area for Key lime in Guerrero and Oaxaca is non-irrigated. In Colima, about half of the Key lime groves have coconut palm trees planted in between Key lime trees in order to increase producer revenue.

The Persian lime trade tends to be dominated by large producers who have achieved efficiencies of scale, and there are smaller producers who are starting businesses in southern Veracruz, Tabasco and Oaxaca. Persian lime production costs average from \$10,400 pesos/ha to \$12,500 pesos/ha (U.S. \$952.38 to \$1,144.68/ha) or more. Average costs of production have increased with the escalation of herbicides and fertilizer prices. Well-tended areas can have production costs as high as \$15,600 pesos/ha (U.S. \$1,428.57/ha). Transportation costs from Veracruz to the U.S. border at Hidalgo, Texas, increased to approximately \$11,500 pesos/trailer (US\$941.85/Trailer *exchange rate* *Peso/US\$ -12.21*) in 2008 due to gas price increases. Packing plants also saw their input costs increase; mainly imported goods such as the boxes to pack the fruit increased nearly 11 percent for 2008. The cost of production for Key limes varies according to the cultural practices and technology. In the most important Key lime producing states (Oaxaca, Colima and Michoacán), production costs can vary from \$7,600 pesos/ha to \$17,264 pesos/ha (U.S. \$696 to \$1,581/ha) for the well-tended areas.

Persian and Key lime yields differ widely depending on production conditions. The average yields for Persian limes in Veracruz range from 8 to 16 MT/ha, depending on cultural practices, but some yields are as high as 25 MT/ha. Key lime yields average between 7 to 12 MT/ha, with a few well-tended groves reaching 30 MT/ha.

Grower prices for Persian limes range from \$500 to \$1,000 pesos/MT (U.S. \$45.75 to \$91.57/MT) for the domestic market, and \$2,000 to \$4,000 pesos/MT (U.S. \$183.15 to \$366.30/MT) for the export market during January to April. Grower prices for Key limes fluctuate more than prices for Persian limes, depending on the season and the producing state. On average, Key lime grower prices range from \$840 to \$3,200 pesos /MT (U.S. \$76.92 to \$293.04/MT). Michoacán production is geared towards the winter season (October/February), while production from Colima, Oaxaca, and other states cover the rest of the year.

CONSUMPTION

Domestic consumption of both Key and Persian limes in Mexico depends largely on prices. Consumption for MY 2008/09 is forecast to increase approximately 4.2 percent over MY 2007/08 consumption as long as prices continue to be affordable. However, this will also depend on the volume that will be exported. Consumption for MY 2007/08 was revised downward due to lower yields and higher prices during the first months of the marketing year. Persian limes had higher prices than expected due to lower supplies. On the other hand, Key limes had large volumes after March 2008 enjoying lower prices compared to 2007. Lime consumption estimates for MY 2006/07 were adjusted downwards based on available information.

Persian limes that do not meet the higher quality requirements demanded for the export market will be consumed domestically. Most of the Key limes go to the fresh domestic market, although exports have been increasing recently. In general, approximately 16 to 20 percent of total Key lime production goes to processing. Producers from Colima and Michoacán indicate that approximately 30 percent of their limes go to processors. Official information on the processing industry is unavailable. Approximately 50 to 60 percent of Persian limes from Veracruz go to the export market and the rest go to the fresh market and processing plants. However, this balance depends on U.S. demand.

Mexican Key limes and Persian limes compete for the same market. When Key limes and Persian limes are both present in the domestic market during peak season, prices are relatively low. When the Persian lime harvest season is at its peak (June to September), prices for both tend to fall. After two or three months when Persian lime growers begin to export, prices for Persian limes increase and remain high until April or May when exports decrease and both crops compete for the fresh domestic market. Key limes from Michoacán, Colima, and Oaxaca are sold on the wholesale market in 18-20/kg boxes while those from Guerrero are sold in 20-22/kg bags. Persian limes are sold in the wholesale market in 50-100/kg bags.

TRADE

Persian and Key lime exports for MY 2008/09 are forecast to increase slightly from the previous marketing year. However, exports depend heavily on international demand from the United States and the current financial market could affect demand. Exports for MY 2007/08 were revised slightly upward, but still reflect a slow down due to the effects of the hurricanes on the export quality of the fruit. Export estimates for MY 2006/07 were revised upward compared to previous estimates due to a stronger international demand more than previously anticipated.

According to producers, Persian limes from Mexico supply about 40 percent of the U.S. and Canadian markets. However, lime producers are expanding into new markets in Japan and Europe. International prices for Persian limes reach U.S. \$20-\$30 per 40-pound box at the peak of winter but start at U.S. \$5 to \$7 per 40-pound box in October/November.

Lime imports continue to be minimal due to ample domestic supplies. MY 2008/09 imports are forecast at 1,000 MT. Data for MY 2006/07 and 2007/08 remains unchanged. Mexico's tariff rate on imported limes from the United States is zero under NAFTA.

FRESH GRAPEFRUIT

PRODUCTION

Although there is no official GOM forecast for grapefruit production for MY 2008/09, producers believe production will be marginally higher compared to MY 2007/08 due to additional acreage coming into production and somewhat better weather conditions. However, less grapefruit is expected from the northern parts of Mexico, particularly the state of Nuevo Leon, due to dry weather conditions. Nuevo Leon represents about 10 percent of total area planted. MY 2007/08 production estimates were revised downward from previous estimates as hurricanes and strong winds affected trees and fruit in the last quarter of 2007. MY 2006/07 production estimates were also revised downward based on official data.

Area planted has fluctuated from 17,000 to 19,000 hectares, depending on price variations and weather. Area planted for MY 2008/09 is forecast to remain close to 18,500 hectares as the rate of growth in newly developed areas has slowed. Area planted and harvested for MY 2007/08 was revised upwards from previous estimates reflecting growth in the states of Michoacán and Veracruz. Area planted for MY 2006/07 was revised downward and area harvested was revised upward based on official data.

Although Veracruz, the state with the largest grapefruit production, has increased area planted, abandoned areas or damaged areas in other parts of the state have somewhat offset this increase. Costs of production for grapefruit generally fluctuates between \$8,600 to \$11,800 pesos per hectare (U.S. \$787.54 to \$1,080.58/ha). These costs have increased due to higher prices for imported inputs such as fertilizers, pesticides, and other agrochemical products.

There are two types of grapefruits planted in Mexico: the red table varieties produced in Tabasco, Campeche, Michoacán, Nuevo Leon, and Veracruz, which are mainly for export as fresh fruit and peeled slices to the United States and Europe; and the white fleshed varieties produced in Tamaulipas and Veracruz, which are used mainly for juice production or for peeled slices. According to growers, planted red varieties increased because of the increased export demand.

According to growers and the industry, approximately 20 percent or more of grapefruit production is destined for processing. However, that estimate largely depends on demand for peeled fruit in the international market and demand for juice in the domestic and international market. The MY 2008/09 forecast of grapefruit destined for processing is expected to be slightly higher from that of MY 2007/08 due to a higher demand from the peeled fruit industry despite the fact that demand from the juice industry was not strong. The estimate for MY 2007/08 remains unchanged and MY 2006/07 estimate was revised downward as the juice industry had a bad year in terms of international prices and processed a low volume of juice. However, all this information is difficult to verify since it is not published by official sources, and companies treat it as confidential information.

Grapefruit yields for MY 2008/09 are forecast to be 19 MT/ha similar to those of MY 2007/08 as some areas in the northern states are going through a dry season. An overall normal yield for grapefruit is approximately 23 MT/ha. Veracruz accounts for approximately 58 percent of Mexican grapefruit production and has the highest yields in the country (between 20 to 30 MT/ha). Michoacán follows with 14 percent of production and yields between 9 to 15 MT/ha. Nuevo Leon accounts for almost eight percent of total production of grapefruit and generally has yields between 16 to 21 MT/ha. In other states, yields vary from 7 to 15 MT/ha.

Grower prices in Veracruz for the red varieties averaged between \$1,500 and \$2,700 pesos/MT (U.S. \$137.36 to \$247.25/MT) for MY 2007/08. For MY 2008/09, grower prices are expected to be slightly lower as there is more fruit from Veracruz. Grapefruit during October 2008 was around \$1,900 pesos/MT (U.S. \$155.61). The grower price of the white variety of grapefruit is cheaper at about \$600 to \$800 pesos/MT (U.S. \$55 to \$73.26/MT). Michoacán has developed areas with red varieties that can be harvested in June/July, and grower prices tend to be higher than Veracruz grower prices because fruit gets to the market earlier in the season. The industry has limited juice production because it is more profitable to import it; therefore, lowering the use of grapefruit.

CONSUMPTION

Fresh grapefruit consumption has been lower than expected for the past two marketing years due to low supplies at higher prices. As a result, consumption for MY 2006/07 and MY 2007/08 was revised downward. Consumption for MY 2008/09 is forecast to continue at similar levels due to reduced consumer purchasing power. However, there is still great demand for this fruit since it is a low calorie food.

Wholesale prices for the red grapefruit variety for October 2008 in Mexico City started at approximately \$3.20/kg (U.S. \$0.26/kg *exchange rate Peso/US\$ -12.21*) for the Veracruz crop, a slight decrease compared to last year's price of \$3.62/kg (U.S. \$0.33/kg). Prices for Nuevo Leon fruit were higher at \$5.30/kg (U.S. \$0.43/kg *exchange rate Peso/US\$ -12.21*). Growers indicate there is no premium on quality since consumers are more interested in lower prices. Since Michoacán can harvest earlier than Veracruz, Michoacán producers can often demand higher prices in the domestic market. Michoacán wholesale prices for July/September 2008 ranged from \$4.60 pesos/kg to \$4.90/Kg (U.S. \$0.37 to \$0.40/kg *exchange rate Peso/US\$ -12.21*).

TRADE

Grapefruit exports for MY 2008/09 are forecast to remain near 12,000 MT due to the dry season in northern states. According to growers, demand from Europe is growing steadily since their sources in South Africa have diverted product to other countries. The best market window is October/November. Export estimates for MY 2006/07 and 2007/08 remain unchanged.

Grapefruit imports for MY 2008/09 are forecast to grow from 10,000 tons to 13,000 tons due to a continual demand from the peeled fruit industry. Estimates for MY 2006/07 and 2007/08 were revised upward due to higher demand from the processing industries more than previously expected. According to sources, most of the imported grapefruit from the United States is further processed for re-export to the U.S. and European markets.

FROZEN CONCENTRATE ORANGE JUICE

PRODUCTION

Reliable frozen concentrate orange juice (FCOJ) production numbers are difficult to obtain since there is no official data available. Most industries tend to keep partial information, most of which is proprietary. According to industry sources, FCOJ production for MY 2009 (January-December) is forecast at 60,000 MT, as long as enough fresh oranges are available for the processing industry. Juice production depends heavily on the international price of FCOJ. Higher prices in the international market enable processors to increase the prices paid to fruit producers. According to the industry, prices for CY 2007 were the highest in recent

years, ranging from U.S. \$1.80/lb to U.S. \$2.00/lb. Prices for 2008 were still good at an average of U.S. \$1.50/lb, but the future contracts for 2009 are expected to be at U.S. \$0.80/lb, which is considered to be very low. The present situation of lower FCOJ prices will lead to lower industry profit margins. Also, the limited supply of oranges tends to drive up prices for fresh fruit. The industry bought fruit in the 2008 season at approximately \$800 to \$1,100 pesos/ton (U.S. \$74.07 to \$101.85/MT) compared to \$1,500 to \$1,800 pesos/ton (U.S. \$137.36 to 164.83/MT) in 2007. Prices for MY 2009 are expected to keep the high range as Alamo, Veracruz, which is a main orange provider area, underwent a dry season with low yields. The FCOJ production estimates for MY 2006 and 2007 were revised upward due to good international prices for FCOJ and greater international demand.

CONSUMPTION

The industry believes that, in general, FCOJ consumption is between 5,500 and 6,500 MT, with a stable demand for orange juice in beverages with orange flavorings. Therefore, MY 2009 FCOJ consumption is forecast at 6,500 MT, the same as in MY 2008. The majority of Mexican consumers prefer freshly squeezed juice over processed orange juice. Consumption for MY 2006 and MY 2007 remains unchanged. Most of the orange juice produced in Mexico goes to the export market. According to processors, carryover of FCOJ from one year to the other is approximately 1,000 MT.

TRADE

Exports of FCOJ for MY 2009 are forecast to be lower compared to MY 2008 due to low international prices and a weaker demand. FCOJ export estimates for MY 2007 and 2008 were revised upward due to strong international demand and higher prices. The United States is the main market for Mexican FCOJ, followed by Japan and European countries. According to industry sources, Mexico is exporting more juice to Europe and Japan in order to take advantage of the lower tariffs it enjoys under their respective trade agreements. FCOJ is imported to cover the industry's needs for mixing purposes, as well as to meet demand from hotels and restaurants. Nevertheless, these imports are still marginal compared to domestic production. FCOJ imports for MY 2009 are forecast at 1,000 MT, the same as in MY 2008. Imports for MY 2007 were revised upward as industry demand was stronger.

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. Mexico also ships 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 2007, Mexico exported approximately 2,640 MT to Japan.