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## Mexico

## Stone Fruit

## Annual Report

## 2006

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**Report Highlights:**

MY 2006 and MY 2007 Mexican peach production is forecast at approximately 200,000 MT. Apricot and cherry production reflects a very small percentage of this overall production. Stone fruit imports for MY 2006 and MY 2007 are expected to continue to grow as long as phytosanitary issues do not resurface. Peaches, apricots, and cherries are largely imported into Mexico from the United States and Chile.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Mexico [MX1]  
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## Executive Summary

Peaches represent the largest commercial stone fruit crop in Mexico. There are small amounts of apricot production, and even less cherry production, and no nectarine production. Mexico imports enough stone fruit to supply the market year round. Peaches, apricots, and cherries are primarily imported from the United States and Chile. Because of population growth and relative economic strength, the Mexican market holds a great deal of potential for U.S. stone fruit exporters. However, unlike Chilean fruit, U.S. stone fruit imports must compete with domestically produced summer fruit. Chile exports in the off-season, and therefore is not in the position of having to compete directly with U.S. fruit or Mexican summer fruit. U.S. stone fruit exports to Mexico for MY 2006 and MY 2007 are expected to continue to grow as long as phytosanitary issues do not resurface to impede the trade.

## FRESH PEACHES

### PRODUCTION

Peach production in Mexico has been fluctuating slightly in recent years. These variances are mainly due to unfavorable weather conditions, lack of financial tools available to producers, and high input costs. MY 2005 peach production estimates were revised downward due to slightly drier than expected weather conditions. However, based on producer estimates, and assuming favorable weather conditions, peach production for MY 2006 is expected to reach approximately 200,000 MT. The forecast for MY 2007 is expected to be very similar to MY 2006, assuming good weather conditions.

For the most part, planted peach area in Mexico has remained stagnant, ranging mostly between 40,000 hectares to 45,000 hectares in the last ten years. Recently, however, planted area has been decreasing, dropping from an average of 46,906 hectares in MY 2000 to 42,175 hectares in MY 2004. In MY 2005 planted area increased slightly, but within the expected range. Area planted for MY 2006 and MY 2007 is forecast to be similar to MY 2005. However, if no credit options are available, and dry weather conditions continue, area planted will continue to decline. The average size of a peach orchard in Chihuahua is approximately 18 to 20 hectares, while in the rest of the peach-growing states orchards average around 4 hectares.

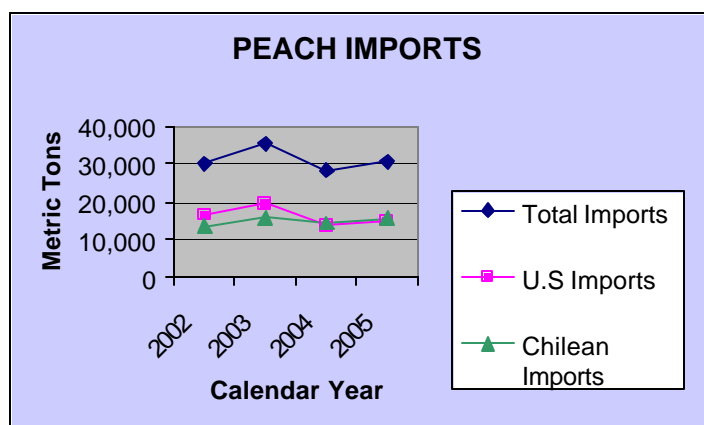
Over sixty-six percent of the peaches produced in Mexico are grown in the states of Zacatecas, Michoacan, Mexico, and Chihuahua. The states of Zacatecas, Michoacan, and Mexico produce mainly yellow cling peaches, and the state of Chihuahua produces mainly freestone peaches. Chihuahua is the only state that produces peaches on irrigated land. The harvest season for Michoacan starts in late February and goes until May; the Zacatecas harvest begins at the end of July and ends in October; and the Chihuahua harvests goes from June to September/October. Mexico does not produce nectarines on a commercial basis. All nectarines present in the domestic market are imported from the United States or Chile, depending on the season.

The cost of production for peaches will vary depending on the production zone. Cost of production can range from approximately \$24,000 pesos/Ha (U.S. \$2,142/Ha) in Chihuahua, a state with relatively high yields due to its modern irrigation systems and advanced cultural practices, to approximately \$11,000 pesos/Ha in other non-irrigated areas. Costs of imported inputs such as fertilizers and pesticides have been increasing significantly over the last five years. According to growers, a further increase in some fertilizer prices is expected in MY 2005, due to higher world oil prices.

Peach yields in Mexico vary significantly depending upon variety, area, and weather conditions. The average yield for the state of Zacatecas is 2.2 MT/Ha; 6.2 MT/Ha in Michoacan; 9.4 MT/Ha in the state of Mexico; and 15.2 MT/Ha in Chihuahua. Yields in Chihuahua tend to be the highest in Mexico due to the use of advanced technology and irrigation systems.

## TRADE

Fresh peach and nectarine imports into Mexico have been increasing slowly, though steadily, for the past several years. To import stone fruit from the United States, the USDA/APHIS office and the Mexican SAGARPA/Plant Health office must annually agree upon a work plan that outlines the phytosanitary standards and measures with which the U.S. stone fruit industry will comply. Chilean stone fruit is also subject to an annual phytosanitary work plan. The U.S. states permitted to export to Mexico under the annual U.S.-Mexico stone fruit work plan are Washington, Idaho, Oregon (for apricots), and California (for peaches, apricots, and nectarines). There are two separate work plans for U.S. stone fruit – one for a systems approach (integrated pest management system that excludes fumigation) and one for fumigation. U.S. stone fruit producers must indicate which pest mitigation option they will follow in order to export to Mexico. The systems approach work plan was signed in 2005 to provide an alternative to fumigation with Methyl Bromide. Fumigation of peaches and, in particular, nectarines, results in a significant deterioration in quality and appearance.



Total MY 2005 peach imports into Mexico increased almost 9 percent over MY 2004, or 30,700 MT from both main suppliers; California and Chile. Mexican wholesale importers continue to complain that the fumigation process brings about a sizable deterioration in fruit quality, as well as a significant decrease in shelf life and retailer demand. Total imports for MY 2006 are expected to remain unchanged from previous estimates. MY 2007 imports are forecast to increase slightly as long as phytosanitary concerns do not resurface.

Imports from Chile have been growing steadily for the last several years, but Chilean peaches and nectarines do not compete directly with U.S. peaches and nectarines as Chilean fruits are imported during the winter season in Mexico, mainly from December to March. U.S. peaches are imported from the end of May to approximately the first week of November. Mexican peaches that are comparable in quality and variety are grown primarily in the state of Chihuahua. The peaches compete directly with U.S. peach imports from the months of June through September. According to industry sources, some peaches are imported for the

canning industry when there are short domestic supplies, or the quality needed is not available. U.S. and Chilean imports have a zero duty.

Mexico exports fresh peaches to the United States from the state of Sonora. Peach production in Sonora is relatively small, but it is the only Mexican state allowed to export to the United States because of its status as being free of Mexican fruit fly. Exports depend on a very short window of two to three weeks in the month of April; this window allows Sonoran peaches to hit the U.S. market before California peaches. Exports for MY 2005 increased from previous estimates because of higher yields resulting from favorable weather conditions. Exports for MY 2006 are expected to increase from previous estimates, and MY 2007 are forecast to continue at 1,000 MT, as long as weather is favorable and international prices remain strong.

## CONSUMPTION

Peach/nectarine consumption in Mexico has been growing steadily over the past five years. Current demand for nectarines is largely the result of U.S. and Chilean marketing campaigns in Mexico. However, peaches and nectarines do face competition from domestic seasonal tropical fruit such as guavas, mangos, and bananas. These fruits are available in the Mexican market in significant quantities and at lower prices than imported peaches. Consumption data indicates that Mexican peach consumers are very price sensitive, thus peach consumption for MY 2005 was lower than expected due to marginally higher peach prices. Peach consumption for MY 2006 was also revised downward, but still shows an increase compared to MY 2004 consumption. MY 2007 peach consumption is forecast to continue to grow due to growing demand, which is driven by increasing incomes and a growing preference for peaches and other exotic fruit. Wholesale market importers indicate that peach prices tend to decrease slightly when the U.S. peaches arrive on the market from June to August. Total fresh volume available to consumers varies, as roughly 20 to 30 percent of total production goes to the canning and processing industry, depending on the volume and quality of each crop.

There is significant demand in Mexico for peaches for industrial use. These peaches are generally processed into yogurts or other products, and then re-exported to the U.S. The demand for industrial use peaches is driven by the lack of supply, rather than by growth in the processing sector. According to industry sources, industrial use peaches are difficult to source domestically because of low levels of production, and are even harder to source from the U.S. because the phytosanitary standards for importing industrial-use peaches into Mexico are very strict. SAGARPA is currently considering increasing the leaf tolerance for boxes of industrial-use peaches, which should both increase U.S. exports to Mexico in MY 2006.

PEACH WHOLESALE PRICES \$US /BOX				
MONTH	CALIFORNIA 2004	CALIFORNIA 2005	LOCAL 2004	LOCAL 2005
JUNE	15.67	17.95	15.43	17.95
JULY	13.23	16.81	11.11	16.29
AUGUST	15.16	19.71	11.92	15.98
SEPTEMBER	18.06	15.99	14.315	13.50

Source: Grupo PM. Market Survey

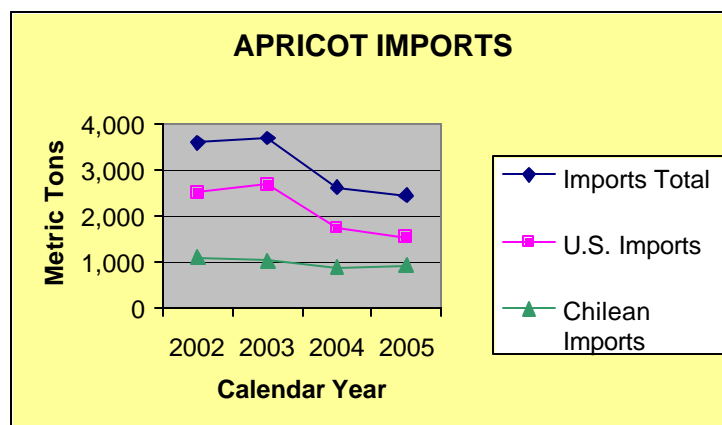
## MARKETING

The Mexican market for imported stone fruit has been growing slowly over the past several years. The states of California and Washington, the main U.S. stone fruit exporters, have been conducting marketing promotions in the Mexican wholesale markets and in Mexican supermarkets in an effort to increase sales. U.S. peaches face somewhat strong competition in the Mexican market during the peak of production in Chihuahua. However, since domestic peach production is not forecast to increase significantly, there is significant growth potential for U.S. peach imports, especially within the high-income segment of the market. Although some supermarkets try to import fruit directly, most of the peaches and nectarines are sold through the wholesale markets.

## APRICOTS

According to official data, area planted for apricots for MY 2004 (Jan/Dec) was 407 hectares, with 327 hectares harvested, and a total production of 1,532 MT. The main producer states are Zacatecas, which accounts for 39 percent of total production, and Sonora, which accounts for 32 percent of total production. The remaining 29 percent of apricot production is divided among nine other states. At this time no official production information is available for MY 2005. The Mexican government does not follow apricot production as closely as it does peach production, as apricot production is a relatively small crop in Mexico.

U.S. apricots are imported into Mexico mainly from the states of California and Washington. These two states represent about 70 percent of total imports. Mexico also imports apricots from Chile, which comprises the remaining 30 percent of total imports. Most Chilean fruit is imported during the winter season, so there is no direct competition with U.S. apricots, which are usually imported from May to August.



Apricots are included under the stone fruit work plan, as are peaches and nectarines (see Peaches, Trade). This past year California was granted the option to mitigate pest risk under the systems approach, rather than with fumigation. Most exporters opted for this approach, and as a result apricots from California experienced less deterioration and longer shelf lives upon arrival in Mexico. However, apricot consumption is highly price sensitive in Mexico. As with peaches, apricots must compete with domestic seasonal fruit like guavas, mangos, and bananas, all of which are available in significant quantities and priced lower than imported apricots. Because MY 2005 prices were moderately higher than MY 2004, imports were down 6 percent. Volume imported in MY 2005 was about 2,442 MT, compared to 2,604 MT in MY 2004. Nonetheless, consumption for MY 2006 and MY 2007 is expected to increase due

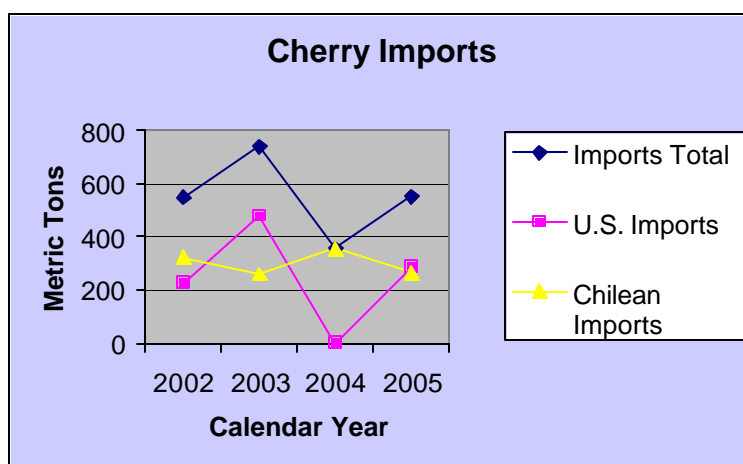
to better-expected quality and longer shelf life, resulting from the use of the systems approach rather than fumigants. Thus, imports for MY 2006 and MY 2007 are forecast to increase slightly, as long as there are no changes to the phytosanitary work plan.

California and Washington states, the main exporters of apricots, have been conducting marketing promotions in the Mexican wholesale markets and supermarkets in order to increase sales. California has an advantage in this market, given its close proximity and larger volume of production. Apricot competition from the local market is not strong. In accordance with the NAFTA, import duties for apricots from the United States are zero.

## CHERRIES

According to official information, MY 2004 cherry planted area is about 20 hectares in the state of Sonora. No cherry production was officially reported for MY 2003 or MY 2004. There is no information available for 2005. Due to the relative insignificance of this crop, the Mexican government does not follow cherry production very closely, and statistical information is not often available.

As with other stone fruit, U.S. cherries must comply with the requirements of the phytosanitary work plan in order for cherries to be imported into Mexico. The U.S. states covered under this work plan include California, Washington, Idaho, and Oregon. U.S. MY 2004 cherry exports were zero because the work plan had not been agreed upon in time for the shipping season. The work plan was in place for MY 2005, and cherries could be exported. However, rainy weather conditions and high U.S. domestic prices kept cherries exports to Mexico at low levels. Chilean cherries producers also experienced bad weather conditions in MY 2005, and exports were also lower than expected. Therefore, Mexican imports for MY 2005 totaled about 500 MT. MY 2006 and 2007 cherry imports are expected to increase as long as the phytosanitary work plan remains in place. Cherries from Chile do not compete directly with U.S. cherries, since Chile exports during the winter season.



Domestic consumption depends entirely on imported product, mainly from the U.S. and Chile. In MY 2005 the U.S. was able to export to Mexico, unlike the MY 2004 season. Because of limited supplies of cherries on the Mexican market, exporters experienced brisk sales and relatively high demand. However, high domestic prices in the U.S. and the international market kept cherry exports to Mexico at low levels. Prices for California cherries at the wholesale market began at U.S. \$114.75/8 Kg box in May 2005, and ended at

about U.S. \$39/9 Kg box in June 2005. Consumption for MY 2006 and MY 2007 is expected to increase due to strong demand.

California and Washington states are the main U.S. cherry exporters and have been doing marketing promotions in the Mexican wholesale and supermarkets to increase sales. There is no competition from local producers. The main concern for U.S. cherry exports continues to be phytosanitary issues.

## SECTION II. STATISTICAL DATA

### Fresh Peaches PS&D

<b>MEXICO</b>						
Fresh Peaches & Nectarines					(HA)(1000 TREES)(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 Begin	01/2005		01/2006		01/2007	
Area Planted	41000	43539	41000	43600	0	43600
Area Harvested	36700	34194	37000	35000	0	35300
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	200000	194713	200000	200000	0	200000
Non-Comm. Production	0	0	0	0	0	0
TOTAL Production	200000	194713	200000	200000	0	200000
TOTAL Imports	30000	30700	31000	31000	0	32000
TOTAL SUPPLY	230000	225413	231000	231000	0	232000
Domestic Fresh Consump	229400	224413	230400	230000	0	231000
Exports, Fresh Only	600	1000	600	1000	0	1000
For Processing	0	0	0	0	0	0
Withdrawal From Market	0	0	0	0	0	0
TOTAL UTILIZATION	230000	225413	231000	231000	0	232000



## Trade Matrixes

PEACHES & NECTARINES H.S. 0809.30		UNITS: THOUSAND METRIC TONS	
EXPORTS FOR MY 2004 (Jan/Dec) TO:		IMPORTS FOR MY 2004 (Jan/Dec) FROM:	
U.S.	594	U.S.	13,788
OTHER		OTHER	
		CHILE	14,480
TOTAL OF OTHER	0	TOTAL OF OTHER	14,480
OTHERS NOT LISTED	16	OTHERS NOT LISTED	0
GRAND TOTAL	610	GRAND TOTAL	28,268

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, November 2005.

APRICOTS H.S. 0809.10		UNITS: METRIC TONS	
EXPORTS FOR MY 2005* (Jan/Dec) TO:		IMPORTS FOR MY 2005* (Jan/Dec) FROM:	
U.S.	0	U.S.	1,552
OTHER	0	OTHER	
		CHILE	86
TOTAL OF OTHER	0	TOTAL OF OTHER	86
OTHERS NOT LISTED	0	OTHERS NOT LISTED	0
GRAND TOTAL	0	GRAND TOTAL	1,638

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, November 2005.

\* Data up to November 2005.

CHERRIES H.S. 0809.20		UNITS: METRIC TONS	
EXPORTS FOR MY 2005* (Jan/Dec) TO:		IMPORTS FOR MY 2005* (Jan/Dec) FROM:	
U.S.	0	U.S.	235
OTHER		OTHER	
		CHILE	93
TOTAL OF OTHER	0	TOTAL OF OTHER	93
OTHERS NOT LISTED	0	OTHERS NOT LISTED	0
GRAND TOTAL	0	GRAND TOTAL	328

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, November 2005.

\* Data up to November 2005

Average Monthly Wholesale Prices Pesos/Kilogram 2005			
MONTH	YELLOW PEACH	FREE STONE PEACH	IMPORTED PEACH
January			
February			
March			
April	10.42①		
May	9.62①		
June	9.34①		
July	9.38①		
August	11.14①	13.29③	
September	7.82②	12.94③	
October	9.64②		20.93
November			22.81
December			33.00
Origin: ① Michoacan ② Zacatecas ③ Chihuahua			
CIF-Mexico City			
PESOS/KILOGRAM			

Source: Servicio Nacional de Informacion de Mercados  
2005 Exchange Rate Avg.: U.S.\$1.00 = 10.90 pesos