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**Report Highlights:**

**Mexico's avocado production for marketing year 2000/01 (August/July) is forecasted to decrease to 650,000 MT, approximately 26 percent less than the revised 1999/00 estimate. Exports, however, are expected to reach 35,000 MT, with about 15,000 going to the United States.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

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## Situation and Outlook

### The Economy

The outlook for the Mexican economy for the remainder of the year 2000 remains bright. Aggregate demand is exceptionally strong and sustaining GDP growth that could average 6.0 percent in 2000. This year's performance will surpass last year's, when GDP rose by 3.7 percent in real terms. The figure for inflation, too, is expected to be lower than the 12.3 percent of 1999 and may decline to about 9.5 percent by the end of the year, the first time the rate will be below 10.0 percent in six years. The Government of Mexico's (GOM) conservative fiscal and monetary policies have helped offset the unusually strong consumer demand and thus prevent the overheating of Mexico's economy. The GOM is conscious of this danger, and is taking steps to ensure that the economy grows at a sustainable rate during the next few years.

Mexico's domestic and foreign trade continues to grow at rates that warrant optimism. Domestic consumption grew by nearly 9.5 percent in real terms during the first half of 2000. Investment rose by about 11.5 percent during this semester relative to the level of a year earlier. This rate could well be sustained during the second half of 2000. Mexico's exports increased about 24.5 percent in nominal terms during the first six months of 2000 relative to those of the same period a year earlier. Imports rose by about 25.0 percent during the same period. In the year that ended in June 2000, Mexico's net international assets increased \$4.2 billion to a total of \$29.6 billion. The result reflected the benefits to Mexico of high oil prices and a robust U.S. economy. The latter's effect on Mexico is overwhelming, given that the United States remains Mexico's most important export market (87 percent in 1999), its most important source of imports (74 percent), and its prime source of foreign short- and long-term capital.

Mexico's current account deficit is projected to be approximately \$19 billion by the end of the year 2000. This figure would represent 3.1 percent of GDP, 0.2 percentage points higher than the corresponding value in 1999. Forecasters generally agree that inflation, as measured by the consumer price index, may drop to about 9.5 percent by the end of the year. The exchange rate for 2000 is forecast to be about 10.0 pesos/US\$ by the end of the year, which would represent about a five percent depreciation relative to the rate that prevailed in 1999 (9.5). Mexico's fiscal deficit will likely to reach approximately 1.0 percent of GDP this year, about the same as it was last year.

Continuation of these positive into 2001 will depend on how well the GOM responds to internal and external developments during the next several months. Exceptionally strong consumer demand could lead to serious overheating of Mexico's economy, which could cause inflation to rise. The growth that this demand provokes attracts capital inflows and strengthens the peso. This can encourage excessive imports. If undiminished, at some point the current account will weaken and may provoke a correction that could induce a fall in economic growth. The Bank of Mexico is implementing monetary restrictions to prevent such overheating.

The GOM's ability to absorb the effects of a U.S. economic slowdown, and possibly of a fall in oil prices, will also determine whether Mexico will be able to maintain buoyant economic growth in the years to come. A significant downturn in the U.S. economy could cause a substantial fall in

U.S. equity prices, which would provoke an increase in U.S. interest rates. The end result could trigger a downturn in Mexico. The expansion of trade with Mexico's non-NAFTA partners could mitigate the effects of a slowdown in the United States. Mexico's free trade agreement (FTA) with the European Union could initiate robust growth in Mexican exports to Europe without posing a threat to the commercially most important U.S. agricultural exports to Mexico. This is true because Mexico did not make tariff rate concessions to the E.U. on any products for which the E.U. provides export subsidies (grains, meat, dairy, etc.). Its development as an export market may more than offset the likely decline in world oil prices during the next few years, given that oil exports now account for less than 10.0 percent of total Mexican exports. Oil revenues nonetheless remain of great significance to Mexico. They account for nearly 35 percent of government budgetary revenue. The GOM thus has a strong interest in cooperating with the OPEC producers to ensure that the price of oil remains at what they consider an acceptable level. The GOM assumed that Mexico would obtain \$16.0 per barrel for its oil exports when it prepared the fiscal year 2000 budget, but the price of Mexico's oil has averaged about \$24 during the first six months of 2000.

On July 2, 2000, Mexican voters elected Vicente Fox as their new President. This was a historic event because he is from the National Action Party (PAN by its Spanish initials), not the Institutional Revolutionary Party (PRI by its Spanish initials) which had dominated Mexican politics for over 70 years. He ran on a pro-business, free trade platform, but it is too early to tell as of this writing what economic policies he will implement to support that platform. He will take power in November 2000.

### **Avocado Situation and Outlook**

Mexican avocado production for MY 2000/01 (August/July) is forecast at 650,000 MT, down 26 percent from the revised MY 1999/00 estimate, due to unfavorable weather conditions which reduced yields. Hail, low temperatures and excessive rainfall are the main factors causing this decrease. Moreover, growers expect the Michoacan avocado crop to fall significantly because lower yields normally follow a higher-yield year. Growers expect, however, that their exports to rebound to 35,000 MT, 55 percent up from the previous year. FAS/Mexico bases this forecast on a blend of data gathered from industry sources during recent travel to the city of Uruapan, which is in the principal growing region in the state of Michoacan.

Production and harvested area figures for MY 1999/00 have been revised upward reflecting most recent industry information. Reportedly, yields in MY1999/00 were higher than average due to good weather conditions in Michoacan. Hass continues to be the principal avocado variety grown and exported by Mexico. For MY1998/99, production as well as harvest and planted area were revised upward to reflect the Secretariat of Agriculture, Livestock and Rural Development data (SAGAR). Fresh avocado consumption in Mexico during MY 2000 is expected to decrease from MY1999 to 570,000 MT as a result of limited supplies.

The APHIS-administered export inspection program for shipping Mexican avocados to selected states of the northeastern United States continues working successfully. To date, no pests of concern have been found in groves approved under the program. At the same time, growers continue to meet APHIS pest-control requirements. Additionally, Mexican avocado growers are

taking significant steps to regulate export supplies to the United States starting in November 2000, to avoid excessive Mexican shipments and subsequent plummeting prices. The industry expects to export approximately 15,000 MT to the United States during the November-February 2000/01 season. Currently, APHIS has approved approximately 9,800 hectares eligible to export to the 19 states open to the Mexican crop

Mexico will host the second National and World Avocado Congress in September 2001, in Uruapan.

**PS&D Tables**

PSD Table						
Country	Mexico					
Commodity	Fresh Avocados		(HECTARES)(1000TREES)(1000 MT)			
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	08/1998		08/1999		08/2000	
Area Planted	94885	93016	95000	95010	0	100925
Area Harvested	93919	92215	94000	78337	0	85000
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	550000	762336	850000	876623	0	650000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	550000	<b>762336</b>	850000	<b>876623</b>	0	<b>650000</b>
Exports	38571	38571	45000	22415	0	35000
Fresh Dom. Consumption	493429	677765	786000	809208	0	570000
Processing Consumption	18000	46000	19000	45000	0	45000
TOTAL DISTRIBUTION	550000	<b>762336</b>	850000	<b>876623</b>	0	<b>650000</b>

**General Production**

Mexico's avocado production in MY 2000/01 (August/July) is expected to fall to 650,000 MT. This is mostly attributable to excessive rainfall, hail, and low temperatures during the flowering season of the Michoacan crop, resulting in lower yields and smaller-sized fruit. In addition, avocado producers agreed to delay the harvest on groves with bearing trees in an effort to avoid a market saturation and subsequent plummeting prices. Consequently, bearing trees were stressed, retarding the next blooming stage that would affect the production significantly. The production estimate for MY 1999 has been revised upward according to latest SAGAR data. It should be noted, however, that private sources did not concur with this data. The state of Michoacan accounts for 82 percent of the planted area, and the remaining 18 percent are scattered throughout six Mexican states.

**Crop Area**

Official sources forecast that the area planted for MY 2000/01 will be up from the previous year, at approximately 6,000 hectares. Industrial sources indicated this increment is due to the expansion of avocado groves in other Mexican states that are reconverting their crops. Michoacan nursery industry is now an ongoing enterprise by providing breeding plants to other Mexican states. In Michoacan, positive financial returns have given growers an incentive to use cultural practices that maximize yields and minimize losses. The potential opportunity to become eligible for exporting to the United States under the APHIS-administered export

inspection program is an additional incentive. Currently, near 10,000 hectares have been certified under the APHIS-administered export inspection program for shipping Mexican avocados to selected states of the northeastern United States the current season. Any expansion of hectares over the mid-to-long term will be limited due to input constraints. The estimated planted areas for MY 1999/00 and 1998/99 were revised downward based on official SAGAR data.

## Inputs

Avocado production was generally profitable during 1999/00 due to acceptable domestic retail prices and relatively stable production costs. Consequently, large-scale growers have maintained good cultural practices. According to industry sources, the total production cost per hectare for avocados in MY 1999/00 was 29,363 pesos (roughly US\$3,058) for an eight-year-old orchard with an average yield of 8-15 MT/ha. Fertilization and phytosanitary control account for much of the difference between these costs of production. Generally, large growers, focused on the export market, have higher production costs. Growers, however, pointed out that production costs vary depending on inputs, type of land and technology. Land use restrictions under Mexico's reforestation program continue to limit the conversion of reforested land to avocado groves.

ESTIMATED PRODUCTION COST BUDGET FOR AN 8 YEAR OLD AVOCADO GROVE IN URUAPAN, MICHOACAN (PESOS/HECTARE/YEAR)	
COST DESCRIPTION	1999/00
Cultural Practices	885.75
Fertilizers	6,155.94
Phytosanitary Control	4,838.94
Machinery and Equipment	8,356.90
Others	4,977.59
Sub Total	25,215.12
Financial Cost (GDP) 16.45%	4,147.88
Total Cost	29,363.00

11/00 Exchange Rate Avg: US\$1.00 = 9.60 Pesos

SOURCE: Banco de Mexico-FIRA

## **Yields**

According to private industry sources, yields are estimated to have fallen from an average of 9.5 metric tons per hectare in 1999/00 to an estimated 7.6 MT/ha in 2000/01

## **Crop quality**

In Michoacan, the quality of the 1999/00 season's Hass crop is reportedly good due to favorable weather conditions and adequate water supplies. The fruit has good size and good flavor. In Michoacan, crop quality has continued to improve because of pest control measures.

For the current crop year, water availability in Michoacan is normal. There are some areas in Michoacan, however, that do not need irrigation because of high soil moisture. In the irrigated areas, most growers continue to use flood or moveable pipe irrigation, while fewer use fixed sprinkler or drip systems.

## **Policy**

Mexico has continued to implement its avocado phytosanitary requirements and procedures for the transportation of fresh avocado within Mexico according to regulation NOM-066-FITO-1995 (see report MX6119). The goal of this regulation is to facilitate exports by protecting the principal production regions from pest infestations. Officials still use eight road stations as check points to control product movement. The Michoacan Plant Health Agency states that currently almost the entire state is considered a low-prevalence-pest area which promotes its potential to fruit export. Only 633 well-identified hectares host the avocado bone screw worm, which is one of the two most important quarantined pests present in the country.

The Mexican government provides no direct subsidies or special tax incentives for avocado production. A trust for the agriculture sector of the Bank of Mexico (FIRA), however, continues to promote schemes to organize growers, packers and input suppliers called "Producers Clubs". Through these clubs, members could obtain FIRA's loans at competitive interest rates and with collateral for only 35 percent of the principal amount of the loan. In addition, members would be able to obtain insurance, technical assistance on orchard management and some administrative and marketing aspects on exports to the United States. FIRA officials indicated that the tendency of this scheme is to integrate most of the small/medium producers that are entitled to obtain a credit. As of today it's an ongoing project which is looking at expansion by integrating into small/medium consultant companies, that could be developed in the near future as non-banking intermediates providing not only legal, technical and administrative but financial assistance.

## **CONSUMPTION**

The vast majority of Mexico's avocado production continues to be consumed domestically. Fresh domestic consumption is forecast in MY 2000/01, to 570,000 MT, down approximately 30 percent from the revised 1999/00 figures due to tighter supplies and higher prices. The estimated consumption of MY 1998 and MY 1999 have been revised upward based on recent industry information. Mexican consumers generally view avocados as a staple food, not as a luxury food



as in many regions of the United States and the EU.

### Avocado Prices

WHOLESALE AVOCADO PRICES			
Month	1999	2000	Change %
January	7.70	5.72	(25.71)
February	8.40	5.54	(34.05)
March	13.92	5.17	(62.86)
April	17.14	5.01	(70.77)
May	18.92	4.91	(74.05)
June	21.00	4.77	(77.29)
July	26.34	5.43	(79.38)
August	12.32	10.32	(16.23)
September	8.04	8.45	5.10
October	6.66	6.79	1.95
November	6.21	6.10*	(1.77)
December	5.98	N/A	N/A
pesos/kilogram			

SOURCE: Servicio Nacional de Informacion de Mercados

\*Preliminary (includes only prices from the first two weeks of November, 2000)

1999 Exchange Rate Avg: U.S. \$1.00 = 9.55 pesos

November 27, 2000. Exchange Rate U.S. \$1.00= 9.40 pesos

**TRADE**

Mexican avocado exports are forecast to reach 35,000 MT in 2000/01. Notwithstanding the unexpected fall observed last season, when the expected 45,000 MT to be exported were not fulfilled, (nearly 22,000 MT were exported), the export market continues to offer a profitable business to the producers, private sources said. The export estimate for 1998/99 has been lowered based on actual export data.

Currently growers expect to export approximately 15,000 MT to the United States during the November-February 2000/01 season. The principal reason is that APHIS has approved approximately 9,800 hectares eligible to export to the 19 states open to the Mexican crop and growers have decided that only 1.5 MT/ hectare will be exported. Presently, fourteen packers are consider as eligible to export Mexican avocados to the United States under the APHIS export program.

<b>APHIS EXPORT PROGRAM ELEGIBLE PACKERS</b>		
<b>1998/99</b>		<b>1999/00</b>
1	Aguamich SA de CV	Aguamich SA de CV
2	El Durazno SA de CV	El Durazno SA de CV
3	Grupo Corporativo Purepecha	Grupo Corporativo Purepecha
4	Agrifrut Sa de CV	Agrifrut Sa de CV
5	Mission de Mexico SA de CV	Mission de Mexico SA de CV
6	Empacadora Rivas	Dama Mexicana
7	Calavo de Mexico SA de CV	Calavo de Mexico SA de CV
8	Vifrut SA de CV	Vifrut SA de CV
9	Avoper SA de CV	Avoper SA de CV
10	Avoperla SA de CV	Avoperla SA de CV
11	Fresh Directions Mexicana	Fresh Directions Mexicana
12	Empacadora San Lorenzo	Empacadora San Lorenzo
13	Frutas Finas Gertrudis	Frutas Finas Gertrudis
14	Agricola Alex	Agricola Alex

In calendar year 1999, total Mexican exports totaled 22, 415 MT, a 41.88 percent decrease from the previous year. This was largely attributable to increased demand in the domestic market. Export prices were approximately US\$30.00 per 11.3 kg (24.91 Lbs). For 2000/01 prices for a 25 lbs. box are expected to be between US\$40.00 - 45.00.

### Trade Matrix

<b>EXPORTS FOR 1999(Jan-Dec)TO:</b>		<b>IMPORTS FOR 1999 (Jan-Dec) FROM:</b>	
U.S.	2,420	U.S.	0
EL SALVADOR	7,673		
COSTA RICA	3,135		
CANADA	2,264		
HONDURAS	2,341		
GUATEMALA	1,574		
FRANCE	1,926		
UNITED KINGDOM	679		
OTHER	403	OTHER	0
<b>GRAND TOTAL</b>	<b>22,415</b>	<b>GRAND TOTAL</b>	<b>0</b>

Source: 1993,2000. Global Trade Information, "World Trade Atlas", Mexico Edition. December 2000.

### TRADE POLICY

Under NAFTA, fresh avocado imports (HS 08.04.40.01) from the United States are subject to a US\$0.04125 /Kg duty for 2000. The tariff will be phased-out by January 1, 2004. Imported avocados are also subject to phytosanitary and sanitary inspections by SAGAR. Although Mexico allows imports of U.S. avocados, few, if any, will enter because U.S. exporters can sell their product for a higher price in the United States or other countries.

On November 13, 2000, the US hosted NAFTA consultations on the status of market access opportunities for Mexican avocados. Mexico is requesting year-round access to all fifty states, an expansion from the current limited access to 19 northeastern states and Alaska for the period of November through February. Without precluding the possibility for a WTO action, Mexico agreed to meet in bilateral technical talks the first two weeks of January, 2001. A WTO dispute panel will be installed under the NAFTA policy if no positive results are forthcoming. Mexico argues that there is no scientific evidence to support the current restrictions that have impeded the expansion of the market window as well as the number of states where Mexican avocado can

be sold. After three export seasons, no phytosanitary issues that could compromise the opening of the export window to the US market for Mexican avocados have been raised.

## **MARKETING**

Recently, a “Federal Promotion Order” was published in the U.S. Federal Register establishing a US\$0.05 per kilogram fee for promotional purposes that will be directed by the California Avocado Commission. Mexican producers and packers consider themselves to be at a disadvantage because the campaign will be promoted nationwide when Mexican avocados can only enter selected northern states.

Also, the industry continues to develop new alternative export markets with several EU countries. The 20,000 MT quota under the newly signed EU free trade agreement has not yet represented benefits to the producers because of constraints related to the reduced export market window.

For 2000/01, Mexican growers and exporters are conducting an advertising campaign in the northeastern US to increase avocado consumption between the Mexican and Latin population. The cost of the promotion, (approximately U.S. \$1.0 million) will be financed by establishing a \$0.01/kilo fee for promotional purposes.

The Michoacan growers will host the 2<sup>nd</sup> annual National and World Avocado Congress in Uruapan on September 2001.