Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 5/03/2001

GAIN Report #MX1058

Mexico

Citrus

Semi-Annual

2001

Approved by:
William L. Brant
U.S. Embassy
Prepared by:
Dulce Flores/Gabriel Hernández

Report Highlights:
The Mexican orange production forecast for MY 2000/01 was revised upward due to excellent weather conditions and timely rainfall. Domestic prices, however, plummeted, forcing some producers to leave unharvested trees. Frozen concentrate orange juice (FCOJ) production and exports for MY 2001/02 were revised downward due to a lower international demand and low prices.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Mexico(MX1), MX

TABLE OF CONTENTS

SECTION I. SITUATION AND OUTLOOK

ECONOMIC SITUATION AND OUTLOOK:

Mexico's 2001 economic prospects augur continuing growth. It will be a good year, but not exceptional, because of the slowdown of the U.S. economy. Therefore Mexico's exports to the U.S. could likely drop. The Fox Administration faces several challenges that call for fundamental structural changes. Appropriately implemented, they would enhance Mexico's ability to withstand the harmful effects of external economic shocks.

The outlook for the Mexican economy for 2001 remains positive although real growth may be a little more than half of what it was in 2000. Since final domestic demand and exports will remain strong, GDP growth could average 3.8 percent in 2001. This performance would be a far cry from the unsustainable 7.1 percent real growth recorded in 2000. Inflation in 2001 may be slightly lower than it was in 2000. The average was 8.9 percent last year, and forecasters are predicting 7.9 percent for 2001.

Mexico's economic growth depends on its export market, essentially the United States. Ninety percent of Mexico's exports, including half of its manufacturing output, are exported to the United States. In 2000, Mexico exported $166.4 billion, a 22.0 percent increase over 1999. Exports may increase by 11.0 percent in 2001, reflecting the slow-down of the U.S. economy. Mexico's most dynamic export sector, the maquiladora plants, assembles goods for the U.S. market. The import needs of the sector explain the 22.9 percent in imports in 2000, to $174.4 billion. Imports may rise to by 18.0 percent in 2001, to $206 billion.

Personal consumption continues to fuel Mexico's economic growth. Demand for goods and services, including imports, grew by about 10 percent in real terms in 2000. That figure may average 8 percent in 2001. Since the U.S. economic slowdown will force exporters to reduce their margins, they will try to keep costs down, including labor costs. The government has proposed a value-added tax on exempt products and services. All these factors will crimp personal demand in 2001.

Mexico's external accounts may cause concern in 2001. In 2000, its current account deficit totaled $19 billion, 3.3 percent of GDP. But for high oil prices, that deficit might have been 4.7 percent of GDP in 2000. The current account deficit rose in each of the last six years except 1998. Forecasters agree that the decline in U.S. economic growth, and possibly in international oil prices, will again widen Mexico's current account deficit in 2001. The effect could be a 11.0/1.0 peso/US$ exchange rate by the end of the year, about 13 percent depreciation relative to the average rate of 9.5 in 2000. Since Mexico's exports enabled it to accumulate $2.8 billion in international reserves ($33.6 billion) in 2000, a less dynamic export environment and a lower level of foreign short- and long-term capital inflows, especially from the United States, could result in a stable reserve level in 2001.

The Fox Administration aims to pursue conservative fiscal and monetary policies. It will encounter difficulty in achieving a balanced budget in the absence of legislative support. In December 2000, the Fox Administration proposed a fiscal deficit of 0.5 percent of GDP in 2001. Congress decided that the target should be 0.65 percent. Mexico's fiscal deficit was 1.0 percent of GDP in 2000.

The fiscal deficit approved by the Congress is complicating the Fox Administration's task of achieving sustainable 7.0 percent economic growth and measurable improvement in living standards, which President Fox promised during the presidential campaign. Financing such a deficit puts upward pressure on domestic interest rates. The result will be lower domestically driven fixed capital investment, with reduced employment and personal income. At the same time, higher domestic interest rates attract foreign capital. Such flows, even if neutralized, strengthen the peso and reduce the competitiveness of Mexican exports while making imports more attractive. Without fundamental change, the net effect could be a run on the peso, such as happened in December 1994. Avoiding calls for major structural changes in public finance, in labor legislation, and in the energy sector, the opposition-dominated Congress seems reluctant to approve the necessary changes.

Mexico's ability to absorb the effects of the U.S. economic slowdown, and possibly of a fall in oil prices, will determine whether Mexico will maintain buoyant economic growth during Fox's administration. Mexico's expansion of trade with its non-NAFTA partners could mitigate the effects of the U.S. slowdown. In particular, Mexico's free trade agreement with the European Union could initiate robust growth in Mexican exports to Europe. Europe's demand for manufactured imports could be critical to Mexico in the event of a prolonged economic downturn in the United States, given that Mexico's oil exports account for less than 10.0 percent of its total exports.

Oil-related revenues remain important to Mexico. Since they account for about 30 percent of government budgetary revenue, the Government of Mexico 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 Government assumes that Mexico will obtain $18.0 per barrel for its oil exports in 2001 and that it will export an average of 1.750 million barrels per day. The government's yield will be about $11.5 billion in 2001. (Source: Embassy's Economics Section: JPG 012901)

Citrus Situation and Outlook

The orange production forecast for MY 2000/01 has been revised upward to 3.5 MMT. The overall good weather and timely rainfall in the producing areas increased orange production more than expected. The downside of this, however, was some producers had to leave trees unharvested due to the lower prices that the oversupplies have caused. The forecast for frozen concentrate orange juice (FCOJ) production was revised downward as a result of international higher stocks, lower demand and lower prices. Therefore, exports of FCOJ are also expected to decrease for MY 2001/02.

SECTION II. STATISTICAL TABLES

FRESH ORANGE PRODUCTION TABLE

PSD Table						
Country	Mexico					
Commodity	Fresh Oranges		(HECTARES) (1000 TREES) (1000 MT)			
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	11/1998		11/1999		11/2000	
Area Planted	323869	323869	326000	332443	327000	332600
Area Harvested	299387	299387	300000	294521	306000	306000
Bearing Trees	60476	60476	61800	60671	61812	61812
Non-Bearing Trees	4945	4945	4040	7586	4242	5373
TOTAL No. Of Trees	65421	65421	65840	68257	66054	67185
Production	2903	**2903**	3100	**3385**	3200	**3500**
Imports	19	19	22	32	22	22
TOTAL SUPPLY	2922	**2922**	3122	**3417**	3222	**3522**
Exports	50	50	10	11	9	10
Fresh Dom. Consumption	2419	2419	2672	2996	2813	3142
Processing	453	453	440	410	400	370
TOTAL DISTRIBUTION	2922	**2922**	3122	**3417**	3222	**3522**

FROZEN CONCENTRATE ORANGE JUICE TABLE

PSD Table						
Country	Mexico		65 Degrees Brix			
Commodity	Juice, Orange		(MT)			
	Revised 1998		Preliminary 1999		Forecast 2000	
	Old	New	Old	New	Old	New
Market Year Begin	01/1999		01/2000		01/2001	
Deliv. To Processors	453000	453000	440000	410000	400000	370000
Beginning Stocks	5900	5900	3000	3000	3000	3000
Production	45300	**45300**	44000	**41000**	40000	**37000**
Imports	1	1	1	1	1	1
TOTAL SUPPLY	51201	**51201**	47001	**44001**	43001	**40001**
Exports	45001	45001	40801	37801	36801	33801
Domestic Consumption	3200	3200	3200	3200	3200	3200
Ending Stocks	3000	3000	3000	3000	3000	3000
TOTAL DISTRIBUTION	51201	**51201**	47001	**44001**	43001	**40001**

Trade Matrixes

ORANGES

ORANGES H.S. 0805.10		UNITS: ***METRIC TONS***	
EXPORTS FOR 1999 TO:		**IMPORTS FOR 1999 FROM:**	
U.S.	47,662	U.S.	19,481
OTHER		OTHER	
ARGENTINA	385		0
TOTAL OF OTHER	385	TOTAL OF OTHER	0
OTHERS NOT LISTED	623	OTHERS NOT LISTED	0
GRAND TOTAL	48,670	GRAND TOTAL	19,481

ORANGES H.S. 0805.10		UNITS: ***METRIC TONS***	
EXPORTS FOR 2000 TO:		**IMPORTS FOR 2000 FROM:**	
U.S.	7,723	U.S.	35,172
OTHER		OTHER	
ARGENTINA	2,216		0
TOTAL OF OTHER	2,216	TOTAL OF OTHER	0
OTHERS NOT LISTED	755	OTHERS NOT LISTED	0
GRAND TOTAL	10,694	GRAND TOTAL	35,172

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January 2001.

FROZEN CONCENTRATE ORANGE JUICE

FROZEN CONCENTRATE ORANGE JUICE HTS. 2009.11.01			UNITS: ***KILOGRAMS* & LITERS****		
EXPORTS FOR 1999 TO:			**IMPORTS FOR 1999 FROM:**		
U.S.	26,458,749	*	U.S.	574,585	**
OTHER			OTHER		
DOMINICAN REP.	3,933,447	*	CUBA	54,315	**
TOTAL OF OTHER	3,933,447	*	TOTAL OF OTHER	54,315	**
OTHERS NOT LISTED	0	*	OTHERS NOT LISTED	71	**
GRAND TOTAL	33,105,545	*	GRAND TOTAL	628,971	**

ORANGE JUICE NOT FROZEN HTS. 2009.19.01			UNITS: ***KILOGRAMS* & LITERS****		
EXPORTS FOR 1999 TO:			**IMPORTS FOR 1999 FROM:**		
U.S.	11,782,759	*	U.S.	2,677,495	**
OTHER			OTHER		
ISRAEL	543,279	*		0	**
TOTAL OF OTHER	543,279	*	TOTAL OF OTHER	0	**
OTHERS NOT LISTED	0	*	OTHERS NOT LISTED	0	**
GRAND TOTAL	13,679,154	*	GRAND TOTAL	2,677,495	**

FROZEN CONCENTRATE ORANGE JUICE HTS. 2009.11.01		UNITS: ***KILOGRAMS* & LITERS*****	
EXPORTS FOR 2000 TO:		**IMPORTS FOR 2000 FROM:**	
U.S.	26,583,149 *	U.S.	227,568 **
OTHER		OTHER	
NETHERLANDS	2,434,182 *	NETHERLANDS	25 **
FRANCE	2,051,470		
TOTAL OF OTHER	31,068,801 *	TOTAL OF OTHER	25 **
OTHERS NOT LISTED	5,441,495 *	OTHERS NOT LISTED	0 **
GRAND TOTAL	36,510,296 *	GRAND TOTAL	227,593 **

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, July 2000.

ORANGE JUICE NOT FROZEN HTS. 2009.19.01		UNITS: ***KILOGRAMS* & LITERS*****	
EXPORTS FOR 2000 TO:		**IMPORTS FOR 2000 FROM:**	
U.S.	6,105,561 *	U.S.	3,055,261 **
OTHER		OTHER	
VENEZUELA	168,862 *	TAIWAN	378 **
TOTAL OF OTHER	168,862 *	TOTAL OF OTHER	378 **
OTHERS NOT LISTED	472,605 *	OTHERS NOT LISTED	0 **
GRAND TOTAL	6,747,028 *	GRAND TOTAL	3,055,639 **

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January 2001.

Orange Prices

WHOLESALE ORANGE PRICES (PESOS/KG)			
Month	**1999**	**2000**	**Change %**
January	**1.35**	**1.43**	**5.93**
February	**1.39**	**1.40**	**0.72**
March	**1.46**	**1.43**	**(2.05)**
April	**2.48**	**1.64**	**(33.87)**
May	**1.83**	**1.95**	**6.56**
June	**2.66**	**1.72**	**(35.34)**
July	**2.98**	**1.76**	**(40.94)**
August	**3.20**	**2.76**	**(13.75)**
September	**2.84**	**2.06**	**(27.46)**
October	**2.66**	**1.52**	**(42.86)**
November	**1.68**	**1.51**	**(10.12)**
December	**1.59**	**1.49**	**(6.29)**

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 1999 US$1.00 = $ 9.55 PESOS
AVR. EXCHANGE RATE FOR 2000 US$1.00 = $ 9.40 PESOS

WHOLESALE ORANGE PRICES (PESOS/KG)			
Month	2000	2001	Change %
January	1.43	1.30	(9.09)
February	1.40	1.27	(9.29)
March	1.43	1.27	(11.19)
April	1.64	1.24*	(24.39)
May	1.95	N/A	N/A
June	1.72	N/A	N/A
July	1.76	N/A	N/A
August	2.76	N/A	N/A
September	2.06	N/A	N/A
October	1.52	N/A	N/A
November	1.51	N/A	N/A
December	N/A	N/A	N/A

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS
AVR. EXCHANGE RATE FOR 2000 US$1.00 = $ 9.40 PESOS
EXCHANGE RATE APRIL 16, 2001 US$1.00 = $ 9.30 PESOS
*As of April 15, 2001

Monthly Exchange Rates

MONTHLY EXCHANGE RATE AVERAGES			
	1999	2000	2001
January	10.13	9.02	9.76
February	10.01	9.43	9.70
March	9.75	9.28	9.60
April	9.43	9.37	
May	9.38	9.50	
June	9.53	9.81	
July	9.37	9.43	
August	9.38	9.27	
September	9.33	9.33	
October	9.52	9.52	
November	9.40	9.50	
December	9.38	9.44	
Annual Avg.	9.55	9.40	

Source: Mexican Federal Register

Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.

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

FRESH ORANGES

PRODUCTION

The fresh orange production forecast for marketing year 2000/01 (November-October) has been revised upward to 3.5 MMT. Producers indicate that weather was good in most of the producing states with timely rainfall, so the main harvest (October to April) was larger than expected. Orange trees had good first and second blooms, resulting in a larger volume of oranges. The downside is the large crop depressed prices. In fact, producers from Nuevo Leon, left part of their harvested crop on the trees because of the low prices, and producers from Veracruz complained of the low prices by attempting to block roads. Such actions were aimed to request the government for support funds for the orange producers. Orange production for MY 1999/00 was revised upward based on official data. Official data indicates that floods and heavy rain during MY 1999/00 did not damage fruit production as it did infrastructure. Production data for MY 1998/99 remains unchanged. Oranges destined for processing for MY 1999/00 and 2000/01 were revised downward due to a lower demand from the processing industry.

Area planted for MY 2000/01 has been revised upward according to recent information. Growers indicate that although area has been increasing, the increase has been slow due to fluctuating prices. Countrywide orange yields for MY 2000/01 are expected to be 11.4 MT/Ha due to timely rainfall. Area planted and harvested for MY 1999/00 have been updated to reflect recent official data.

Grower prices at the farm gate for MY 2000/01 began in October at approximately 450 pesos/MT (US$47.41/MT) for the early varieties, and plummeted to approximately 300 to 400 pesos/MT (US$31.61 to US$37.96 /MT) in late December and January 2001. Meanwhile, the industry was paying on average 450 pesos/MT (US$47.41/MT) for oranges at the plant. According to growers the price is beginning to increase and by the end of April the growers' price for oranges was approximately at 600 pesos/MT (US$63.22/MT). Wholesale prices also declined during the first quarter of 2001. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. Transportation costs to Mexico City are usually 2,500 to 3,000 pesos per 10 MT (US$263 to 316 per 10 MT), with same day delivering.

To assist citrus producers in Mexico, the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) announced on March 15, 2001, the operational rules for the "Alliance for the Countryside" for 2001. The Alliance is an umbrella program for most of the SAGARPA's domestic support activities. The announcement includes several aspects that regulate those activities, as well as official programs including operational procedures, the responsibilities and contributions of both the federal and state governments, credit activities, direct aids to complement farmer's investments, marketing promotions, etc. An specific program for helping citrus producers is included in the announcement. The objective of this program is to protect and assist citrus plantings in the country by providing supports to renovate the established plantings with vegetative material that is certified as free of virus and resistant to the citrus tristeza virus (CTV).

Funds are budgeted for the replacement or renovate of citrus groves with the virus free material and certified plants, to have specialized technical assistance, to establish producer lots of virus-free seeds and propagative material, to have marketing assistance, etc. For example, the federal government will fund up to 35 percent of the cost of renovating citrus groves up to a maximum of $2,835 pesos/ha (US$298.73/ha) with a density of 300 trees/ha. For establishing commercial groves, the funds will cover a maximum of 10 hectares per producer, per year, with a maximum of $28,350 pesos per producer (US$2,987.35 per producer). The program allows funds for $1,200/ha (US$126.44/ha) with a maximum of $12,000 per unit of production (US$1,264.48/per unit) to eliminate old trees and substitute with virus-free material that is tolerant to the tristeza virus.

CONSUMPTION

The fresh orange consumption forecast for MY 2000/01 has been revised upward to 3.1 MMT, reflecting a good consumer purchasing power due to more accessible prices. Final consumption estimates, however, will depend on the final volume purchased by the industry. The industry indicates that the low international price for juice concentrate will reduce the volume of oranges for processing. Consumption estimates for MY 1999/00 were revised upward based on most recent official information and a decrease in demand of oranges destined to the processing industry. MY 1998/99 consumption estimates reflect final official data.

TRADE

Mexican orange exports for MY 2000/01 were revised upward to 10,000 MT. Exports, however, will depend on supplies from California and Florida. Orange exports for MY 1999/00 were revised upward based on Mexican trade data. Most of the oranges exported to the U.S. are from Sonora, which produces very good, high quality oranges. Mexico will continue to export processed oranges as peeled slices for fruit salads and other foods. According to growers, the international market is demanding more peeled fruit. The United States continues to be the largest export market for Mexican oranges. The MY 2000/01 forecast for Mexican orange imports remains unchanged due to the current large orange supplies in the country. Imports for MY 1999/00 were revised upward based on Mexican trade data.

OTHER TRADE AGREEMENTS

As reported in MX0178, a free trade agreement was signed between Mexico and the European Union (EU) went into effect on July 1, 2000. The EU will allow 1,000 MT of fresh orange juice under a quota access to the EU market. The tariff will be 50 percent under the MFN or GPS duties applicable at the time of import as of July 1, 2000. Also, the EU will allow 30,000 MT of FCOJ under a quota with a tariff of 25 percent under the MFN or GPS duties applicable at the time of import as of July 1, 2000. The FCOJ must have a concentration of 20 degrees Brix with a density above 1.089 grams per cubic centimeter. It is still uncertain how much FCOJ will Mexico be able to export under this agreement.

Also, on March 6, 2000, Mexico signed a free trade agreement with Israel. Among the agricultural products negotiated in the agreement with Israel are unlimited exports of Mexican fresh oranges and FCOJ. Since Israel imports these products from other sources, it is uncertain what share of the market Mexico will be able to capture.

MARKETING

The marketing situation for oranges and citrus fruit in general remains unchanged from FAS/Mexico's report MX0178. U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more price sensitive than quality sensitive. This is one of the main reasons for limited exports of U.S. citrus products. Despite the excellent quality, prices are 4 to 5 times higher than Mexican products. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasized quality rather than price.

FROZEN CONCENTRATE ORANGE JUICE (FCOJ)

PRODUCTION

Frozen concentrate orange juice (FCOJ) production forecast for MY 2001/02 (January/December) was revised downward 9.7 percent to 37,000 MT, a decrease compared to MY 2000/01 production. According to the industry, lower international prices and higher international stocks resulted in a decrease of FCOJ production. Juice production depends heavily on the international price of FCOJ. The international price for FCOJ future contracts for CY 2001 deliveries has been fluctuating from US$0.75 to $0.80 per pound, which is a lower price compared to CY 2000 prices of US$0.82- $0.85 per pound. The forecast for oranges for processing was, thus, revised downward to 370,000 MT. Lower international prices represents smaller margins for the industry. FCOJ production estimates for MY 2000 were revised downward also as a result of low international prices and a decrease in demand. Therefore, the estimates for oranges for processing for MY 2000/01 were also revised downward.

The industry had a slow start for MY 2001/02 due to the international price conditions. Despite the fact that there were larger supplies of oranges available for the industry at attractive prices, the industry reduced the expected processing volume of oranges. The industry bought fresh fruit on average from 350 to 450 pesos/MT (US$36.88 to $47.41/MT) during February/March 2001, compared to 2000 prices of 650 to 750 pesos/MT (US$68.40 to $78.95/MT).

CONSUMPTION

Industry sources estimate that FCOJ consumption for MY 2001/02 will be similar to that of MY 2000/01 or 3,200 MT, given the attractive prices for fresh oranges. The majority of Mexican consumers prefer and demand fresh squeezed juice instead of processed orange juice.

TRADE

The export estimate for FCOJ for MY 2001/02 was revised downward due to a decrease in demand and lower prices. Furthermore, the strong peso against the dollar that has prevailed in 2000 and 2001 has not helped the export industry. According to industry sources, Mexico will fill 100 percent of the 2001 U.S. quota. The export estimates for MY 2000/01 were also revised downward based on recent official trade data. FCOJ imports are almost negligible compared to domestic production.