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Fresh Deciduous Fruit

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Report Highlights:

Mexico's apple production for MY 2000/2001 was revised downward to 13 percent from earlier estimates due to adverse weather. Pear production for MY 2000/2001 was revised upward to 34,000 MT. A good economy and improved consumer purchasing power will likely increase apple and pear imports, especially from the United States.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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TABLE OF CONTENTS

| | |
|----------------------------------------|----|
| SECTION I. SITUATION AND OUTLOOK | 2 |
| THE ECONOMY | 2 |
| APPLES | 2 |
| PRODUCTION | 2 |
| CONSUMPTION | 3 |
| TRADE | 3 |
| POLICY | 3 |
| MARKETING | 4 |
| PEARS | 5 |
| PRODUCTION | 5 |
| CONSUMPTION AND TRADE | 5 |
| MARKETING | 5 |
| SECTION II. STATISTICAL TABLES | 6 |
| Apples. PS&D Table | 6 |
| Pears PS&D Table | 7 |
| Apple Prices | 8 |
| Pear Prices | 9 |
| Table Grape Prices | 10 |
| Exchange Rates | 11 |
| TRADE MATRIXES | 12 |

SECTION I. SITUATION AND OUTLOOK

THE ECONOMY

The outlook for the Mexican economy for the first half of the year 2001 remains bright. 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.

Continuation of last year's positive macro-economic indicators 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 possible 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 a large percentage 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.

APPLES

PRODUCTION

The MY 2000/2001 (August/July) forecast of total Mexican apple production has been revised downward to 390,000 MT. Sources indicate that weather conditions in Chihuahua, the main apple producing state, were adverse to apple production. There were freezing temperatures during flowering, less cold hours than needed for fruit coloring, and hail storms during the harvest cycle that damaged approximately 30 percent of the crop. Weather conditions in other producing areas were normal. Areas planted and harvested for MY 2000 were revised downward from previous estimates based on recent available information. The production estimate for MY 1999 was revised upward to 449,866 MT based on final government data. Area harvested was revised

upward based also on final government information. Data for MY 1998 remain unchanged.

CONSUMPTION

The forecast for apple consumption for MY 2000 has been revised downward because of expected lower supplies and lower quality than in MY1999. Strong consumer purchasing power and an expected lower inflation rate, however, are helping with continued demand for imported product. Domestic consumption estimates for MY 1999 were revised upward because of a higher demand. Data for MY 1998 remain unchanged.

The main domestic apple producing regions during September and October are Chihuahua and Coahuila. The best quality apples from Chihuahua were put into cold storage to regulate market prices, however, these apples are few. Lower quality apples damaged by hail and other weather problems prevailed in the market. Prices from September to December 2000 were approximately US\$17 to US\$23 per 20 kg./box at the wholesale level while U.S. apples were approximately US\$21 to US\$29 per 20 Kg/box.

TRADE

The forecast for apple imports for MY 2000 has been revised upward to 170,000 MT, due to increased demand and good consumer purchasing power. Lower domestic supplies could strengthen demand for imported product. The minimum price per box under the suspension agreement reached in Mexico's dumping case against U.S. exporters was increased in November 2000, from US\$11.29 per box to US\$11.48 per box (See report MX0164). This situation makes U.S. apples more competitive with Chilean and Canadian apples. In fact, less Chilean apples are expected to be imported due to the "estimated price" system implemented by the Secretariat of Treasury. All imported apples are subject to the "estimated price" system (reference prices), which is explained below in the Custom Cash Account System Section. The estimate for apple imports for MY 1999 was revised upward to 155,590 MT, a 3.7 percent increase from earlier estimates due to increased demand. Chilean apple imports are estimated to be lower for 2000 compared to 1999. Argentinian apples continued to have a small presence in the market with lower quality apples and higher prices.

POLICY

The 2001 duty on U.S. apples is 4 percent for the safeguard volume of 67,641.94 MT and 20 percent for any imports above the safeguard. The duty for Canadian apples is also 4 percent for the safeguard volume of 1,380.29 MT and 20 percent for any imports above the safeguard. The duty for Chilean apples is 8.3 percent for the safeguard volume of 2,496.61 MT and a snapback of 23 percent. Importers of Chilean apples must obtain a quota certificate to be able to import under the lower duty. Apples from other countries are subject to a 20 percent duty.

Customs Cash Account System

In July 1991, the Secretariat of Treasury in Mexico (SHCP) announced the implementation of a Customs Cash Account system. Because of operational problems, the system was not implemented until October 1, 2000. (See Report MX0156). This system will require importers to deposit in a bank account 100 percent of duties assessed on the difference between the actual invoice value (including transportation costs and broker's fees) and the value of the shipment based on the predetermined "estimated" price (reference price). These prices, as

implied by their name, are "estimated.." SHCP, using price lists, data from Mexican producers, as well as some other information, derives an "estimated" price for the selected products. The estimated price is neither the official price nor a minimum tax base but just an estimation of the products' value in the neighborhood of the real price, i.e., the customs value of the products. The deposit will be held for 6 months or less in an interest-bearing account while the importer attempts to prove that his price is legitimate. In the end, the importer will either receive back his full deposit plus accrued interest, or have the tax difference deducted. The line of credit must be established between the importer and one of the Mexican banks which has been accepted to participate. The previous bond system was scrapped because it was impossible for Treasury to enforce/collect. Wine, beer, pasta, wood products, rice and apples are a few products affected by the estimated price scheme and consequently the Customs Cash Account system. Private sources stated that importers' costs will increase as a result of the regulation. Most apple importers buying U.S. apples do not have to make a deposit since the apples had a higher price than the "estimated price" stipulated by SHCP. This was not the case for the Chilean apples that could not comply with the "estimated price" since Chilean prices were lower, in spite of higher transportation costs.

The estimated price for apples is published and updated in the *Diario Oficial* (Mexican Federal Register). The last update was published on September 5, 2000. Under this announcement, the estimated price for apples is determined on the basis of average import invoices for apples of all varieties from all origins. There are 7 different categories by size only, with a different estimated price for each, from US\$0.74/kg for the smallest, to US\$0.825/kg for the largest size.

MARKETING

The U.S. is expected to continue being the main apple supplier to the Mexican market. The U.S. apple industry's continued market and in-store promotion efforts have contributed to that success. Promotion efforts for MY 2000 are targeted to varieties other than Red and Golden delicious apples like Gala and Fuji. There is more budget available for TV advertisements to help consumers identify U.S. brands from other brands. Also, the U.S. apple industry is sponsoring some sporting events. Additionally, a contest has been implemented in large stores where the direct supervisors of fruits can participate and win prizes if there is an increase in U.S. apple sales or for the best in store exhibit. According to managers this creates an incentive not only for the store but for the fruit managers to keep U.S. apples in good condition.

Mexican producers continue doing market promotions and are now advertising Mexican apples on the radio and certain TV spots. Chilean producers have been working aggressively to penetrate the Mexican market and have introduced several varietal characteristics in an effort to target different population groups. Their promotion strategy focuses on price more than on quality. According to traders, Chile is planning to invest in in-store demonstrations and advertisement. Canada is also promoting its apples by inviting traders to visit Canada with all expenses paid. According to traders, other countries like France, China and South Africa are beginning to explore the Mexican fruit market.

Mexican consumers prefer the Red and Golden Delicious varieties more than any others. Their long shelf life give them a competitive advantage over other varieties. The Golden variety has great import potential since domestic production is limited. The Rome Beauty variety has been widely accepted by consumers, mainly for baking purposes. Mexican consumers have accepted Chilean apples because they taste similar to Mexican apples and often are cheaper than those from the United States.

PEARS

PRODUCTION

Pear production in Mexico is not very significant, therefore periodic data are not available from the Mexican government. Thus, the total pear forecast for MY 2000 (July/June) for area planted and harvested remains unchanged. The production forecast for MY 2000 has been revised upward based on producer sources. Area planted for MY 1999 remains unchanged, however, area harvested was revised downward based on recent government data. Pear production estimates for MY 1999 were revised upward reflecting final official data. Data for MY 1998 remain unchanged.

CONSUMPTION AND TRADE

Domestic supply continues to rely on imports, mainly from the United States, because Mexican pear production is minimal and not increasing. The pear consumption forecast for MY 2000 has been revised upward to 127,000 MT reflecting strong demand and consumer purchasing power. The consumption estimate for MY 1999 has also been revised upward due to increased demand.

According to traders, the pear import forecast for MY 2000 has been revised upward to 95,000 MT due to increased demand and high U.S. pear production. In fact, considering that the exchange rate during 1999 and 2000 had small fluctuations, pear prices were relatively less expensive during 2000 compared to 1999 prices. The import estimate for MY 1999 has also been revised upward according to official Mexican data. Pear imports from the United States have been increasing steadily for the last three years, and the trend is expected to continue as long as the Mexican economy continues to grow. Imports from Chile, however, have grown by 36 percent from MY 1999 to MY 2000 because of the increased demand in the Mexican market. The quantity of Chilean pears imports is not very significant in the Mexican market, about 3 percent of total imports, because transportation costs make them more expensive than those from the United States. Under NAFTA, the import duty on pears is zero, and under the Mexico-Chile agreement the tariff is also zero.

MARKETING

The United States is expected to continue to be the main supplier of pears. Market promotion efforts for U.S. pears continue in several Mexican cities, supermarkets and street markets. The major challenge for pears in the Mexican market is to increase consumers appreciation for new varieties. In fact, pear promotion will also use TV media to advertise as well as magazines. The number one pear preference among Mexicans is the Anjou variety, followed by the Bartlett variety. Most U.S. pears come from Washington, Oregon and California. Chilean producers do not conduct marketing or promotional campaigns in Mexico. For this reason, and higher pear prices, Chilean pears still do not represent a major threat to U.S. imports.

SECTION II. STATISTICAL TABLES

Apples. PS&D Table

| | | | | | | |
|------------------------|--------------|---------------|-----------------------|---------------|---------------|---------------|
| PSD Table | | | | | | |
| Country | Mexico | | | | | |
| Commodity | Fresh Apples | | (HA) (1000TREES) (MT) | | | |
| | Revised 1998 | | Preliminary 1999 | | Forecast 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 08/1998 | | 08/1999 | | 08/2000 | |
| Area Planted | 66900 | 66900 | 66629 | 66629 | 66630 | 66600 |
| Area Harvested | 58740 | 58740 | 63589 | 64475 | 63600 | 60390 |
| Bearing Trees | 13216 | 13216 | 14307 | 14506 | 14310 | 13587 |
| Non-Bearing Trees | 1836 | 1836 | 684 | 484 | 682 | 1397 |
| Total Trees | 15052 | 15052 | 14991 | 14990 | 14992 | 14984 |
| Commercial Production | 357244 | 357244 | 430702 | 437866 | 439000 | 380000 |
| Non-Comm. Production | 13000 | 13000 | 12000 | 12000 | 11000 | 10000 |
| TOTAL Production | 370244 | 370244 | 442702 | 449866 | 450000 | 390000 |
| TOTAL Imports | 133721 | 133721 | 150000 | 155590 | 156000 | 170000 |
| TOTAL SUPPLY | 503965 | 503965 | 592702 | 605456 | 606000 | 560000 |
| Domestic Fresh Consump | 443965 | 443965 | 504702 | 517456 | 516000 | 470000 |
| Exports, Fresh Only | 0 | 0 | 0 | 0 | 0 | 0 |
| For Processing | 60000 | 60000 | 88000 | 88000 | 90000 | 90000 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 503965 | 503965 | 592702 | 605456 | 606000 | 560000 |

Pears PS&D Table

| | | | | | | |
|------------------------|--------------|--------------|------------------|------------------------|---------------|---------------|
| PSD Table | | | | | | |
| Country | Mexico | | | | | |
| Commodity | Fresh Pears | | | (HA) (1000 TREES) (MT) | | |
| | Revised 1998 | | Preliminary 1999 | | Forecast 2000 | |
| | Old | New | Old | New | Old | New |
| Market Year Begin | 07/1998 | | 07/1999 | | 07/2000 | |
| Area Planted | 5209 | 5209 | 5100 | 5100 | 5050 | 5050 |
| Area Harvested | 5174 | 5174 | 5040 | 5000 | 5000 | 5000 |
| Bearing Trees | 1076 | 1076 | 1048 | 1040 | 1040 | 1040 |
| Non-Bearing Trees | 7 | 7 | 12 | 20 | 10 | 10 |
| Total Trees | 1083 | 1083 | 1060 | 1060 | 1050 | 1050 |
| Commercial Production | 24190 | 24190 | 31541 | 31852 | 28500 | 32500 |
| Non-Comm. Production | 1500 | 1500 | 1500 | 1500 | 1500 | 1500 |
| TOTAL Production | 25690 | 25690 | 33041 | 33352 | 30000 | 34000 |
| TOTAL Imports | 54800 | 54800 | 68000 | 74158 | 74000 | 95000 |
| TOTAL SUPPLY | 80490 | 80490 | 101041 | 107510 | 104000 | 129000 |
| Domestic Fresh Consump | 78490 | 78490 | 99041 | 105510 | 102000 | 127000 |
| Exports, Fresh Only | 0 | 0 | 0 | 0 | 0 | 0 |
| For Processing | 2000 | 2000 | 2000 | 2000 | 2000 | 2000 |
| Withdrawal From Market | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL UTILIZATION | 80490 | 80490 | 101041 | 107510 | 104000 | 129000 |

Apple Prices

| AVERAGE MONTHLY WHOLESALE APPLE PRICES Red Delicious/ Pesos/Kilogram | | | |
|---------------------------------------------------------------------------------|-------------|-------------|---------------------|
| Month | 1999 | 2000 | Change % |
| January | 12.00 | 7.85 | (34.58) |
| February | 11.75 | 7.55 | (35.74) |
| March | 11.75 | 7.00 | (40.43) |
| April | 10.00* | 8.89 | (11.10) |
| May | 10.00* | 11.08* | 10.80 |
| June | 11.05* | 11.72* | 6.06 |
| July | 11.57* | 12.01* | 3.80 |
| August | 11.94* | 12.02* | 0.67 |
| September | 10.68* | 10.36 | (3.00) |
| October | 10.37 | 10.25 | (1.16) |
| November | 10.47 | 10.87 | 3.82 |
| December | 8.85 | 10.47 | 18.31 |
| CIF - Mexico City | | | |

SOURCE: SNIM

AVERAGE EXCHANGE RATE FOR 1999 USD\$1.00 = \$9.55 PESOS

EXCHANGE RATE (AUGUST 28, 2000) US\$1.00 = \$ 9.23 PESOS

* Imported apples

Pear Prices

| AVERAGE WHOLESALE PEARS PRICES CIF Mexico City -- Dollars/Box | | | | | |
|------------------------------------------------------------------|---------------|--------|-------|-----------|------------|
| 2000 | UNITED STATES | MEXICO | CHILE | ARGENTINA | CALIFORNIA |
| JAN | 19.17 | | | | 25.10 |
| FEB | 20.14 | | 15.10 | | 21.74 |
| MAR | 17.59 | | 16.04 | | |
| APR | 20.72 | | 16.71 | | 25.30 |
| MAY | 16.16 | | 15.87 | | |
| JUN | 16.17 | 6.45 | 12.00 | 14.17 | |
| JUL | 15.11 | 7.17 | 15.76 | 13.72 | 10.42 |
| AUG | 17.70 | 6.36 | 15.57 | 11.12 | 11.83 |
| SEP | 20.97 | | 17.63 | 15.51 | 11.97 |
| OCT | 18.53 | | 16.04 | | 11.85 |
| NOV | 18.65 | | | | 12.69 |
| DEC | 17.43 | | | | |

Source: Market Survey (Grupo PM)

Table Grape Prices

| AVERAGE WHOLESALE GRAPE PRICES CIF Mexico City -- Dollars/Box | | | |
|------------------------------------------------------------------|------------|--------|-------|
| 2000 | CALIFORNIA | MEXICO | CHILE |
| JAN | 13.65 | | 17.44 |
| FEB | | | 18.34 |
| MAR | | | 13.5 |
| APR | | | 16.2 |
| MAY | | | 14.43 |
| JUN | | 11.5 | 13.5 |
| JUL | | 13.5 | 13.65 |
| AUG | 14.5 | 13.8 | |
| SEP | 13.33 | 12.1 | |
| OCT | 13.45 | 10.26 | |
| NOV | 14.85 | | |
| DEC | 15.34 | | 14.99 |

Source: Market Survey (Grupo PM)

Exchange Rates

| MONTHLY EXCHANGE RATE AVERAGES | | |
|-------------------------------------------|-------------|-------------|
| | 1999 | 2000 |
| January | 10.13 | 9.02 |
| February | 10.01 | 9.43 |
| March | 9.75 | 9.28 |
| 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.

TRADE MATRIXES**Apples**

| EXPORTS FOR 2000* TO: (METRIC TONS) | | IMPORTS FOR 2000* FROM: (METRIC TONS) | |
|-----------------------------------------------|----|-------------------------------------------------|---------|
| U.S | 1 | U.S. | 132,765 |
| OTHERS | | OTHERS | |
| CUBA | 12 | CHILE | 22,019 |
| BELIZE | 10 | CANADA | 2,400 |
| OTHERS NOT LISTED | 3 | OTHERS NOT LISTED | 496 |
| GRAND TOTAL | 26 | GRAND TOTAL | 157,680 |

Source: 1993, 2000. Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition.

* As of September 2000.

Pears

| EXPORTS FOR 2000* TO: (METRIC TONS) | | IMPORTS FOR 2000* FROM: (METRIC TONS) | |
|-----------------------------------------------|----|-------------------------------------------------|--------|
| U.S | 6 | U.S. | 59,414 |
| OTHERS | | OTHERS | |
| BELIZE | 7 | CHILE | 3,251 |
| OTHERS NOT LISTED | 1 | OTHERS NOT LISTED | 612 |
| GRAND TOTAL | 14 | GRAND TOTAL | 63,277 |

Source: 1993, 2000. Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition.

* As of September 2000.