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Special market request for Fresh Stone Fruit (peaches, nectarines and plums)

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The Mexican market for imports of stone fruit (fresh peaches, nectarines and plums) has potential for slow, but steady, growth over the next two years. A leading reason for this anticipated growth is the increased availability of retail outlets for stone fruit. Many U.S. retail chains have moved south to establish stores while others have joined forces with Mexican-owned chains to market to this growing sector.

California has a distinct advantage in this market, given its geographic proximity, length of export season and distinctive grade availability. Location keeps costs down and helps with consumer acceptance and awareness. Season length puts California products into the market when locally grown fruit is unavailable. And, having both a No. 1 and utility grade to offer gives California shippers the ability to supply products to more sectors.

As a result of the improving quality of local products, combined with a lack of economic stability reflected in currency fluctuations and lower purchasing ability, imports of peaches are expected to increase slowly, at an annual average rate of less than five percent between 1999 and the year 2000.

As a result of a lack of economic stability reflected in currency fluctuations and lower purchasing ability, along with Chile targeting the market, Mexican imports of plums are expected to grow no more than eight percent, annually, between 1999 and the year 2000.

Includes PSD changes:

Includes Trade Matrix:

MARKETING OVERVIEW

The Mexican market for imports of stone fruit (fresh peaches, nectarines and plums) has potential for slow, but steady, growth over the next two years. A leading reason for this anticipated growth is the increased availability of retail outlets for stone fruit. Many U.S. retail chains have moved south to establish stores while others have joined forces with Mexican-owned chains to market to this growing sector. Large format stores are increasingly the trend as discount stores and mega-markets take root and close down the inefficient corner grocery stores. Fruits are readily found in such stores, while less than ten years ago fine fruit could only be found in better neighborhoods. Currently, the main barrier to increasing imports of stone fruit are sanitary and phytosanitary (SPS) entry restrictions. As access improves, so will the cost and selection of the products.

Competition from local production is strong, especially for peaches, with nationally organized peach growers and scattered plum growers aggressively adapting to price pressure from imports. Tropical products are also available in significant amounts and at low prices. Limited refrigeration, limited technical capacity, and lack of product knowledge can prove significant barriers to importing fine fruits. Also, there still remain basic trade concerns about the Mexican government's mandatory fumigation treatment of peaches and nectarines that stifles demand.

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<u>PEACHES AND NECTARINES</u>

Mexico and Chile are the main competitors of U.S. peaches, although Chile's production season occurs during Mexico's and the United States' winter season. Both countries (Mexico and Chile) can compete on price; neither of them conduct market development activities. Peaches of comparable U.S. quality are grown mainly in the state of Chihuahua. Production is of high quality, is generally well packed, branded, and benefits from adequate distribution systems. Thus, U.S. peaches face tough competition for the Mexican market during the peak production season. The strategic advantage for U.S. peaches is the short duration of Chihuahua's production (Jun-Sep).

Total domestic production of peaches is estimated at 150,000 MT, per year. According to the Ministry of Agriculture (SAGAR), twenty five percent of the production is destined for canned peaches, baby food and beverages. Another important peach producing state is Zacatecas, which grows close to 30 percent of Mexico's total production, followed by the state of Michoacan. However, over 40 percent of Zacatecas' production is destined to the processing industry.

Due to the limited domestic production of high quality peaches, coupled with the reduced import tariffs resulting from the North American Free Trade Agreement (NAFTA), the market potential for U.S. peaches is very promising, especially in the high income segment of the market.

Nectarines are a new product in the Mexican market, and current consumption is the result of U.S. and Chilean exports to Mexico. Peaches and nectarines are classified under the same HTS import tariff number 0809.30.01.

According to Mexican data (source: Banco de Mexico), Mexican imports of peaches and nectarines totaled U.S.

$10.2 million (16,485 MT) in 1995; U.S. $9.1 million (13,632 MT) in 1996; and U.S. $14.4 million (22,636 MT) in 1997. It is estimated that imports reached U.S. $12.1 million (18,000 MT) in 1998. The import segment of the peach market is still dominated by U.S. exports, which accounted for 59.8 percent of the aggregate total during the latest four-year period, followed by Chilean imports, which accounted for an average 39.8 percent of the total in the same time period. As a result of the improving quality of local products, combined with a lack of economic stability reflected in currency fluctuations and lower purchasing ability, imports of peaches are expected to increase slowly, at an annual average rate of less than five percent between 1999 and the year 2000.

PLUMS

In the case of plums, Mexico is the only direct competitor for U.S. products, although Chilean products enter the local market during Mexico's winter season. Chile and Mexico compete on price; neither of them conduct market development activities.

Annual plum production in Mexico is around 80,000 MT. More than ninety percent of domestic plum production is from non-irrigated orchards, which results in low quality and short product shelf life. The state of Michoacan is the number one producer, with about 40 percent of total production. Local plum production consists of general varieties: "Almond Plum" which represents close to five percent of the production and is distributed in local markets, Moscatel, Presidente, Amarilla and Santa Rosa. These plums are generally marketed in bulk, without grading and at a low price. Under these market conditions, U.S. plums have a good market opportunity due to their high quality, but price is still an important factor in the Mexican market.

According to Mexican data (source: Banco de Mexico), Mexican imports of plums totaled U.S. $2.9 million (2,819 MT) in 1995; U.S. $4.4 million (5,989 MT) in 1996; and U.S. $7.1 million (9,278 MT) in 1997. It is estimated that imports totaled U.S. $7.8 million (7,219 MT) in 1998. This is the second largest stone fruit import category. The import segment of the plum market is dominated by Chilean exports, which accounted for 55.2 percent of the aggregate total during the latest four-year period, followed by U.S. plums, which accounted for 44.1 percent.

Superior product quality and lower costs in getting the product to the market represent significant opportunities for U.S. exporters to raise their market share at the expense of Chilean exports. As a result of a lack of economic stability reflected in currency fluctuations and lower purchasing ability, along with Chile targeting the market, Mexican imports of plums are expected to grow no more than eight percent, annually, between 1999 and the year 2000.

TRADE POLICY UPDATE

Stone fruit exports from the United States to Mexico (peaches and nectarines only) are conducted under a phyto-work plan, which was signed by Mexico and the United States in 1995. This work plan authorizes the export of stone fruit from any state with Methyl Bromide treatment as a condition to entry into Mexico. This work plan is still valid for the upcoming export season (1999), and the U.S. industry expects to be able to export.

There is a second work plan that is a "systems approach" for the export of untreated peaches and nectarines from California, signed by Mexico and the United States in August, 1998. The program is considered a revised "Pilot Program" that had to be terminated after several weeks of operation last year due to the detection of an Oriental fruit moth (O.F.M.) at a packing plant. California plums are not required to undergo the fumigation treatment to enter the country; however, they must be grown under biologically controlled conditions. The U.S. industry has suggested some revisions to the work plan, and the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) will meet with SAGAR during the months of February and March to resolve various issues. If these issues are successfully resolved, the U.S. industry expects to be able to export for the coming export season. It is important to note that sometimes technical talks between APHIS and SAGAR take a long time, and could delay the export season.

Currently, Mexico's phytosanitary access conditions result in many barriers for U.S. stone fruit exports. Few shippers care to, or can afford to, participate in the mandatory export program. Fumigation can shorten the shelf life of the treated fruit (peaches and nectarines), increase product costs significantly, and limit product availability. Generally, bad publicity surrounds the use of such treatments on the fruit. Plums, while not treated, still suffer the same fate through association.

The current Mexican tariff for U.S. peaches/nectarines for 1999 is eight percent ad valorem duty, and for plums the tariff is zero. The tariff for Chilean peaches is zero percent as a result of the Free Trade Agreement established between Mexico and Chile.

Hopefully, by the year 2002, the United States and Mexico will have settled their SPS differences and both will recognize the other's sovereignty in handling such matters in a fair and equitable manner. It is likely that the economy will still be in recovery, and that the government will still be working towards greater market stability. Consequently, slow but steady increases in import volumes of stone fruit are expected. And, pending the resolution of the outstanding SPS issues, the Mexican market holds great potential for U.S. stone fruit exports.