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Mexico

Grain and Feed

Mexico's Grain and Feed Outlook Mixed

1999

Approved by:
Franklin D. Lee
U.S. Embassy, Mexico City
Drafted by:
Ben Juarez/Sal Trejo

Report Highlights:
As a result of economic slowdown and sluggish demand, Mexico's total imports of grain and feed will likely be lower in 1999/00 than a year ago. Production of corn, wheat and dry beans is expected to increase, while sorghum and rice are expected to decline due to dry conditions in the north, low domestic prices, and financial uncertainties caused by the country's current economic situation.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report

SECTION I. SITUATION AND OUTLOOK

Economic Outlook: Mexico's consumer boom during the first 10 months of 1998 slacked-off considerably in November as higher interest rates, a weakening currency and a domestic fuel price increase reduced the population's disposable income.

The volatility of international financial markets has dampened the Mexican economy. Interest rates increased and the peso weakened after Russia defaulted on some of its debt in August 1998, causing a reduction in consumer confidence and the amount of disposable income. Mexican government budget cuts of more than US$3.3 billion last year also reduced demand in the economy. Last year's reduced oil revenues forced three budget cuts, and the 1999 budget's oil revenues were revised downward to US$9.25 per barrel from US$11.50.

Mexico's 1999 budget includes 1 percent monthly increases in gasoline prices. These will amount to a yearly increase of 12.7 percent for calendar year 1999. If, however, November 1998's 15 percent increase is included, gasoline prices will have increased 29.6 percent for the 13½ months period (November 1998 - December 1999). This, along with the elimination of subsidies to corn tortillas, will make the Mexican government's goal of 13 percent inflation for 1999 a major challenge.

It is expected that the economic lessons Mexico learned during the crisis of 1994, and improved fiscal and monetary policies, will help Mexico minimize the impact, without too much suffering, from the financial troubles currently affecting Brazil. Despite its relatively strong position, Mexico has some cause to worry because of its dependence on oil at a time when prices remain low. This will more than likely result in Mexico seeing only modest economic growth this year. Retail sales, for example, are expected to slow during 1999 as tighter monetary and fiscal policies reduce the amount of cash available in the economy. Consumer confidence is also slipping due to economic uncertainties and the recent turmoil in the Asian and Brazilian financial markets.

Over the next three to five years, however, imports of U.S. grain should increase, as Mexico recovers from the internal slowdown discussed above. Although the government would like to achieve greater self-sufficiency, several factors limit Mexico's ability to expand production. Corn, sorghum and dry bean production takes place primarily in non-irrigated areas, which are subject to unpredictable weather conditions. Wheat production could be depressed if returns on export crops continue to be more favorable than returns from producing staple crops.

Wheat: Total Mexican wheat production for marketing year 1999/00 (Jul-Jun) is forecast to reach nearly 3.4 million metric tons due to slightly increased planted area and expected increase in yields. The wheat production estimate for 1998/99 has been revised downward to 3.2 million metric tons to reflect official Mexican government and producer associations' data. The 1997/98 wheat production estimate has been revised downward to reflect final government data. Imports are forecast to decrease slightly to 1.6 MMT for 1999/00 because of slightly increased domestic wheat production.

Rice: For MY 1999/00 (Oct-Sept), rice production is forecast to decrease due to increased input costs, low producer prices in relation to other crops, relatively less expensive imports, and lack of water in the northwestern rice producing regions (Sinaloa state). In addition, the cancellation of government direct payments to rice farmers under the ASERCA program in Veracruz and Campeche states due to federal budget cuts will also contribute to the decrease. As a result, the forecast of 1999/00 imports has been increased relative to the previous year based on increased demand, decreased production, and needed stock-building. For 1998/99, estimated imports have been revised downward due to higher than expected domestic production. The import and domestic consumption figures for 1997/98 have been decreased to reflect official Mexican government data.

The estimate of Mexican rice production for 1998/99 has been increased to 317,000 MT (milled) to reflect updated official government and private trade source data.

Corn: For corn, the production forecast for 1999/00 (Oct-Sep) is 18.5 MMT. This increase relative to the current year assumes normal weather conditions and relatively higher domestic prices due to the corn-tortilla price liberalization. Consequently, imports are forecast to be in the 3.9 MMT range. Production estimates for MY 1997 and MY 1998 reflect the latest official Mexican government data. For the current year 1998, the import estimate remains unchanged – 4.3 MMT, while the import estimate for MY 1997 has been increased to 4.2 MMT due to lower than expected production and to reflect most recent Mexican official data. The 1999 import quota for U.S. corn is 2.814 MMT and will be administered as before with the government allocating "cupos" (import permits) to importers and industry. Thus far, SECOFI has allocated 1.5 MMT announced on January 29 and February 1. New allocations are expected by the second quarter of 1999.

Sorghum: For sorghum, 1999/00 (Oct-Sept) production is forecast to decline slightly due to a switch into higher-priced corn. Imports are forecast to increase to 2.9 MMT based on needed stock-building. The production estimate for 1998/99 has been increased to 6.45 MMT based on recent government figures. Also, the estimate of sorghum production for MY 1997 has been decreased to 5.3 MMT to reflect official government data. The MY 1997 import estimate has been raised to 3.2 MMT, while the estimate of MY 1998 has been lowered, both based on final government data.

Dry Edible Beans: Imports of dry edible beans in 1999/00 (Oct-Sept) are forecast at approximately 80,000 MT based on flat domestic production and increased consumption. The MY 1998 import estimate has been dropped sharply based on higher than expected production and the government's decision to delay the auction of tariff-rate-quota import permits.

New Policies: Mexico's new phytosanitary standards for imports of grain and seeds (not for planting) was published on October 12, 1998 as NOM-028. The result was the immediate elimination of Mexico's system of phytosanitary import permits, which frequently disrupted U.S. grain exports to Mexico. In summary, the new standards specify three permissible grain treatments and limits the points of entry for selected grains (See MX 8126). It imposes additional declarations on the International Phytosanitary Certificate for wheat (TCK) and sorghum (ergot). It also requires cleaning and fumigation of surface transport vehicles if determined to be contaminated by vegetation or soil. Despite initial indications that this rule would have significant impact on U.S. grain trade, the Mexican government asserts that access for imported U.S. grain has not been a problem. Mexico accepted the status quo arrangements for declarations on U.S. export certificates for ergot in sorghum and TCK in wheat.

Marketing: The primary mission of the U.S. Agricultural Trade Office (ATO) in Mexico City is to assist in the market development and promotion of U.S. food and agricultural products in the Mexican market. There are a wide variety of activities and services that the ATO, along with other private sector representatives called "Cooperators," make available to help develop U.S. agricultural interests in Mexico. The Cooperator groups that represent the U.S. food and feed grains industry are: U.S. Wheat Associates, Inc.; the USA Rice Federation; the U.S. Grains Council; and the National Dry Bean Council. They can provide information on all aspects of U.S. grain trading and use, including sourcing, purchasing and feeding. Technical help in the areas of end-use, processing and technology, as well as education on the United States as a supplier, are part of the U.S. grain Cooperators' programs.

Offices of U.S. Wheat Associates and the U.S. Grains Council are located with the ATO at Jaime Balmes 8-201,

Col. Polanco, 11510 Mexico, D.F. They can be reached by telephone at 011-52-5282-0973, or by fax at 01152-5282-0968. Contact with USA Rice Federation and the National Dry Bean Council can be made via the ATO office by telephone or fax at 011-52-5209-9100, ext. 4750, 51, 52 and 011-52-5202-0528, respectively. The ATO email address is http://www.atomexico.gob.mx.

For more information on the U.S. Grains Council and the services they offer, visit their website at http://www.grains.org.

SECTION II. STATISTICAL TABLES

PS&D Wheat

Unit: 1000 Hectares/1000 Metric Tons

PSD Table						
Country:	**Mexico**					
Commodity:	**Wheat**					
	1997		**1998**		**1999**	
	Old	New	Old	New	Old	New
Market Year Begin	**07/1997**		**07/1998**		**07/1999**	
Area Harvested	919	801	850	770		800
Beginning Stocks	388	318	318	318		212
Production	3732	3639	3600	3220		3365
TOTAL Mkt. Yr. Imports	1400	1232	1600	1625		1600
Jul-Jun Imports	1400	1232	1600	1625		1600
Jul-Jun Import U.S.	1200	1000	1300	1300		1300
TOTAL SUPPLY	5520	**5189**	5518	**5163**		**5177**
TOTAL Mkt. Yr. Exports	300	541	400	100		100
Jul-Jun Exports	300	541	400	100		100
Feed Dom. Consumption	500	500	600	700		500
TOTAL Dom. Consumption	4902	4330	5000	4851		4900
Ending Stocks	318	318	118	212		177
TOTAL DISTRIBUTION	5520	**5189**	5518	**5163**		**5177**

Table 1
Wheat Production Cost Budget
State of Sonora
(Pesos per Hectare)

Item	Fall/Winter 97/98	Fall/Winter 98/99	% Change
Land Preparation	739.00	791.00	7.0
Planting	411.00	422.00	2.7
Fertilizing	1,268.00	1,158.00	(9.5)
Irrigation	576.00	630.00	9.4
Cultural Practices	76.00	81.00	6.6
Control of Disease	1,174.00	1,209.00	3.0
Harvest	551.00	577.00	4.7
Other Costs	1,098.00	1.213.00	10.5
Total	5,886.00	6,081.00	3.3
Average Yield	5.60 MT	6.00 MT	7.1
Price	1,300.00	1,375.00	5.8
Gross Profit	7,280.00	8,250.00	13.3
Total Cost	5886.00	6,081.00	3.3
Net Profit	1,394.00	2,169.00	55.6
Cost of Production/MT	1,051.07	1,013.50	(3.8)

Exchange Rate (February 19, 1998) US$1.00 = $10.05
SOURCE: Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR)

Table 2
Wheat Production Cost Budget
State of Baja California
(Pesos per Hectare)

Item	Fall/Winter 97/98	Fall/Winter 98/99	% Change

Land Preparation	1122.00	1235.00	10.1
Planting	488.82	636.00	30.1
Fertilizing	664.00	1786.04	169.0
Irrigation	736.78	741.57	0.07
Cultural Practices	642.00	N/A	N/A
Control of Disease	2843.65	12240.00	(129.0)
Harvest	776.00	960.00	23.7
Other Costs	1364.01	2306.06	69.1
Total	6899.53	8904.68	29.1
Average Yield	6.09 MT	6.30 MT	3.4
Price	1500.00	1400.00	(7.1)
Gross Profit	9135.00	8820.00	(3.6)
Total Cost	6899.53	8904.68	29.1
Net Profit	2235.47	(84.68)	
Cost of Production/MT	1132.93	1413.44	24.8

Exchange Rate (February 19, 1998) US$1.00 = $10.05
SOURCE: Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR

WHEAT		UNITS: ***Metric Tons***	
EXPORTS FOR 1997 TO:		**IMPORTS FOR 1997 FROM:**	
U.S.		**U.S.**	734,110
OTHER		*OTHER*	

Italy	79,600	CANADA	313,881
Bermuda	51,250		
TOTAL OF OTHER	130,850	*TOTAL OF OTHER*	313,881
OTHERS NOT LISTED	122,750	*OTHERS NOT LISTED*	
GRAND TOTAL	253,600	***GRAND TOTAL***	1,047,991

WHEAT		UNITS: ***Metric Tons***	
EXPORTS FOR 1998* TO:		**IMPORTS FOR 1998* FROM:**	
U.S.	21,408	U.S.	1,237,225
OTHER		OTHER	
NETHERLANDS	58,701	CANADA	571,119
ITALY	21,000		
TOTAL OF OTHER	79,701	TOTAL OF OTHER	571,119
OTHERS NOT LISTED	13,200	OTHERS NOT LISTED	
GRAND TOTAL	114,309	GRAND TOTAL	1,808,344

*As of September 1998
Source: Global Trade Information Services, Inc.

PS&D Rice

Unit: 1000 Hectares/1000 Metric Tons

PSD Table	
Country:	**Mexico**

Commodity:	**Rice, Milled**					
	1997		**1998**		**1999**	
	Old	New	Old	New	Old	New
Market Year Begin	**10/1997**		**10/1998**		**10/1999**	
Area Harvested	87	90	90	90		85
Beginning Stocks	274	274	157	273		274
Milled Production	278	278	300	317		275
Rough Production	417	417	450	475		412
Milling Rate(.9999)	6667	6667	6667	6667		6667
TOTAL Imports	330	303	350	289		307
Jan-Dec Imports	330	303	350	289		307
Jan-Dec Import U.S.	310	288	330	274		280
TOTAL SUPPLY	882	**855**	807	**879**		**856**
TOTAL Exports	0	2	0	0		0
Jan-Dec Exports	0	2	0	0		0
TOTAL Dom. Consumption	725	580	750	605		625
Ending Stocks	157	273	57	274		231
TOTAL DISTRIBUTION	882	**855**	807	**879**		**856**

RICE, MILLED		UNITS: ***Metric Tons***	
EXPORTS FOR 1997 TO:		**IMPORTS FOR 1997 FROM:**	
U.S.	1,052	**U.S.**	289,733
OTHER		*OTHER*	
EL SALVADOR	110	URUGUAY	3,525
NICARAGUA	703		
TOTAL OF OTHER	813	*TOTAL OF OTHER*	3,525
OTHERS NOT LISTED	1,865	*OTHERS NOT LISTED*	14
GRAND TOTAL	3,730	***GRAND TOTAL***	293,272

RICE. MILLED		UNITS: ***Metric Tons***	
EXPORTS FOR 1998* TO:		**IMPORTS FOR 1998* FROM:**	
U.S.	1,638	**U.S.**	309,668

OTHER		*OTHER*	
EL SALVADOR	61	GUYANA	2,000
TOTAL OF OTHER	61	*TOTAL OF OTHER*	2,000
OTHERS NOT LISTED		*OTHERS NOT LISTED*	111
GRAND TOTAL	1,699	***GRAND TOTAL***	311,779

*As of September 1998
Source: Global Trade Information Services, Inc.

PS&D Corn

Unit: 1000 Hectares/ 1000 Metric Tons

PSD Table	

Mexico

Country:						
Commodity:	**Corn**					
	1997		**1998**		**1999**	
	Old	New	Old	New	Old	New
Market Year Begin	**10/1997**		**10/1998**		**10/1999**	
Area Harvested	7400	7208	8000	7471		7700
Beginning Stocks	2434	2434	1450	1095		1100
Production	18200	16934	18650	18085		18500
TOTAL Mkt. Yr. Imports	3500	4210	4300	4300		3900
Oct-Sep Imports	3500	4210	4300	4300		3900
Oct-Sep Import U.S.	3500	4210	4300	4300		3900
TOTAL SUPPLY	24134	**23578**	24400	**23480**		**23500**
TOTAL Mkt. Yr. Exports	84	308	80	80		80
Oct-Sep Exports	84	308	80	80		80
Feed Dom. Consumption	5450	4220	5600	4500		4700
TOTAL Dom. Consumption	22600	22175	23300	22300		22600
Ending Stocks	1450	1095	1020	1100		820
TOTAL DISTRIBUTION	24134	**23578**	24400	**23480**		**23500**

Table 3
Corn Production Cost Budget State of Sinaloa
(Pesos per Hectare)

	1998/99 Fall/Winter Crop
Land Preparation	947
Planting	1,151
Irrigation	566
Fertilizing	1,069
Cultural Practices	314
Control of Diseases	490
Harvest	1,333
TOTAL	

Exchange Rate (February 19, 1998) US$1.00 = $10.05
SOURCE: Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR)

CORN		UNITS: ***Metric Tons***	
EXPORTS FOR 1997 TO:		**IMPORTS FOR 1997 FROM:**	
U.S.	6,833	**U.S.**	1,632,058
OTHER		*OTHER*	
EL SALVADOR	14,826		
GUATEMALA	2,840		
TOTAL OF OTHER	17,666	*TOTAL OF OTHER*	
OTHERS NOT LISTED	5,700	*OTHERS NOT LISTED*	
GRAND TOTAL	30,199	***GRAND TOTAL***	1,632,058

*As of September 1998
Source: Global Trade Information Services, Inc.

CORN		UNITS: ***Metric Tons***	
EXPORTS FOR 1998* TO:		**IMPORTS FOR 1998* FROM:**	
U.S.	186,478	**U.S.**	3,725,748
OTHER		*OTHER*	
COLOMBIA	31,418	ARGENTINA	30
EL SALVADOR	6,414		
TOTAL OF OTHER	37,832	*TOTAL OF OTHER*	30
OTHERS NOT LISTED	101	*OTHERS NOT LISTED*	
GRAND TOTAL	224,411	***GRAND TOTAL***	3,725,778

*As of September 1998
Source: Global Trade Information Services, Inc.

PS&D Sorghum

Unit: 1000 Hectares/ 1000 Metric Tons

PSD Table						
Country:	**Mexico**					
Commodity:	**Sorghum**					
	1997		**1998**		**1999**	
	Old	New	Old	New	Old	New
Market Year Begin	**10/1997**		**10/1998**		**10/1999**	
Area Harvested	1750	1710	2000	1920		1850
Beginning Stocks	1774	1774	964	1554		1304
Production	5490	5341	6000	6450		6200
TOTAL Mkt. Yr. Imports	2300	3154	2900	2700		2900
Oct-Sep Imports	2300	3154	2900	2700		2900
Oct-Sep Import U.S.	2300	3154	2900	2700		2900
TOTAL SUPPLY	9564	**10269**	9864	**10704**		**10404**
TOTAL Mkt. Yr. Exports	0	0	0	0		0
Oct-Sep Exports	0	0	0	0		0
Feed Dom. Consumption	8600	8715	8800	9400		9500
TOTAL Dom. Consumption	8600	8715	8800	9400		9500
Ending Stocks	964	1554	1064	1304		904
TOTAL DISTRIBUTION	9564	**10269**	9864	**10704**		**10404**

SORGHUM		UNITS: ***Metric Tons***	
EXPORTS FOR 1997 TO:		**IMPORTS FOR 1997 FROM:**	
U.S.	1	**U.S.**	1,452,348
OTHER		*OTHER*	
HONDURAS	57		
TOTAL OF OTHER	57	*TOTAL OF OTHER*	
OTHERS NOT LISTED	5	*OTHERS NOT LISTED*	
GRAND TOTAL	63	***GRAND TOTAL***	1,452,348

SORGHUM	UNITS: ***Metric Tons***
EXPORTS FOR 1998* TO:	**IMPORTS FOR 1998* FROM:**

U.S.	2	**U.S.**	2,472,428
OTHER		*OTHER*	
HONDURAS	26	ARGENTINA	56,918
GUATEMALA	15		
TOTAL OF OTHER	41	*TOTAL OF OTHER*	56,918
OTHERS NOT LISTED	2	*OTHERS NOT LISTED*	
GRAND TOTAL	45	***GRAND TOTAL***	2,529,346

*As of September 1998
Source: Global Trade Information Services, Inc.

PS&D Beans

Unit: 1000 Hectares/ 1000 Metric Tons

PSD Table						
Country:	**Mexico**					
Commodity:	**Beans**					
	1997		**1998**		1999	
	Old	New	Old	New	Old	New
Market Year Begin	**10/1997**		**10/1998**		**10/1999**	
Area Harvested	1673	1673	1990	1996		1970
Beginning Stocks	169	169	39	39		169
Production	956	956	1170	1325		1330
TOTAL Mkt. Yr. Imports	140	140	150	70		80
Jul-Jun Imports	140	140	150	70		80
Jul-Jun Import U.S.	138	138	140	68		75
TOTAL SUPPLY	1265	**1265**	1359	**1434**		**1579**
TOTAL Mkt. Yr. Exports	6	6	5	5		5
Jul-Jun Exports	6	6	5	5		5
Feed Dom. Consumption	0	0	0	0		0
TOTAL Dom. Consumption	1220	1220	1260	1260		1300
Ending Stocks	39	39	94	169		274
TOTAL DISTRIBUTION	1265	**1265**	1359	**1434**		**1579**

Table 4
Dry Beans Production Cost Budget State of Sinaloa
Irrigated Land
(Pesos per Hectare)

	1997/98 Fall/Winter Crop	1998/99 Fall/Winter Crop	Increase (%)
DIRECT COSTS			
Land Preparation	1,204	1,296	7.68
Planting	1,621	1,410	(13.05)
Irrigation	280	440	57.14
Fertilizing	856	914	6.83
Cultural Practices	284	322	13.28
Control of Diseases	460	490	6.44
Harvesting (Machine)	720	834	15.86
Total Direct Costs	5,425	5,706	5.17
INDIRECT COSTS:			
Financing	450	582	29.44
Insurance	434	604	39.08
Total Indirect Costs	884	1,186	34.18
TOTAL ALL COSTS	6,309	6,891	9.23

Exchange Rate (February 19, 1998) US$1.00 = $10.05
SOURCE: Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR)

BEANS		UNITS: ***Metric Tons***	
EXPORTS FOR 1997 TO:		**IMPORTS FOR 1997 FROM:**	
U.S.	2,521	**U.S.**	28,904
OTHER		*OTHER*	
SPAIN	1,137	CANADA	256
CUBA	60	CHINA	37
PORTUGAL	48		
TOTAL OF OTHER	1,245	*TOTAL OF OTHER*	293
OTHERS NOT LISTED	169	*OTHERS NOT LISTED*	2
GRAND TOTAL	3,935	***GRAND TOTAL***	29,199

BEANS		UNITS: ***Metric Tons***	
EXPORTS FOR 1998* TO:		**IMPORTS FOR 1998* FROM:**	
U.S.	2,479	**U.S.**	120,424
OTHER		*OTHER*	
SPAIN	672	CANADA	4,257
CANADA	299		
TOTAL OF OTHER	971	*TOTAL OF OTHER*	4,257
OTHERS NOT LISTED	333	*OTHERS NOT LISTED*	3,422
GRAND TOTAL	3,783	***GRAND TOTAL***	128,103

*As of September 1998
Source: Global Trade Information Services, Inc.

Table 5: Mexico's NAFTA Tariffs for U.S. Grain and Feed

Country: Mexico
Report Year: 1999

H.S.	Product Description	Tariff current Year	Note
713	**Dried leguminous vegetables, shelled, whether or not skinned or split.**		
0713.31.01	Beans of the species Vigna mungo (L.). Hepper or Vigna radiata (L.) Wilczek.	Exempt	
0713.32.01	Small red (adzuki) beans (Phaseolus or Vigna angularis).	Exempt	
0713.33.01	Kidney beans, including white pea beans (Phaseolus vulgaris).	Exempt	
0713.33.99	Kidney beans, including white pea beans (Phaseolus vulgaris).	105.6	C*
0713.39.99	Other.	Exempt	
1001	**Wheat and meslin.**		
1001.10.01	Durum wheat.	6.0	
1001.90.99	Other.	6.0	
1005	**Corn (maize).**		
1005.90.99	Other.	163.4	C*
1006	**Rice.**		
1006.10.01	Rice in the husk (paddy or rough).	4.0	
1006.20.01	Husked (brown) rice.	8.0	
1006.30.01	Semi-milled or wholly milled rice, whether or not polished or glazed.	8.0	
1006.40.01	Broken rice.	4.0	
1007	**Grain sorghum.**		
1007.00.01	Grain sorghum.	Exempt	
1007.00.02	Grain sorghum.	Exempt	

Note: C* - preferential tariff rate - exempt if imported under TRQ

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

WHEAT

Production

Total Mexican wheat production for MY 1999/00 (Jul-Jun) is forecast to reach nearly 3.4 million metric tons due to expected favorable weather conditions in the north and improved yields. This forecast is tempered, however, by the possibility that some northern wheat area may move to safflower and cotton production, given relative prices. The MY 1998/99 production estimate has been lowered to 3.2 MMT as a result of limited water and slightly smaller area. The MY 1997/98 production figure is revised slightly downward to reflect official government data.

In northern Mexico large areas planted to wheat are under irrigation. This allows for higher average yields of up to 6.5 metric tons per hectare in some areas. For 1999/00, there could be some limited irrigation problems given the low reservoir levels in northwestern Mexico.

Consumption

With the help of population growth, and ongoing retail-level price controls for basic bread, Mexico's consumption of wheat products is expected to slightly increase in 1999/00. This will also be influenced by higher corn tortilla prices. For 1997/99 and 1998/99, the consumption estimates have been slightly decreased due to dampened consumer purchasing power and Mexicans' general preference for corn tortillas instead of bread. As a result of reduced domestic demand for durum wheat and limited export markets, more durum wheat is being offered for feed use.

Trade

Total wheat imports in 1999/00 are forecast to decrease slightly to 1.6 million metric tons due to a slight improvement in domestic production. Price competitiveness will in large part decide import source. In MYs 1997 and 1998, Mexico imported wheat from only the U.S. and Canada. This, again, will likely be the case in MY 1999/00. There are reliable reports that the Saskatchewan Wheat Pool is financing the construction of major grain handling and storage facilities at the west coast port of Manzanillo. Imports in MY 1997/98 were revised downward to reflect official government data

Policy

Mexico's 1999 NAFTA tariff rate for both wheat and flour is 6 percent. The non-NAFTA tariff rate is 67 percent. With the exception of wheat from the Mexicali area of Baja California, Mexican wheat is not allowed into the U.S. for phytosanitary reasons.

Mexico's new phytosanitary standards for imports of grain and seeds (not for planting) was published on October 12, 1998 as NOM-028. The result was the immediate elimination of Mexico's system of phytosanitary import permits, which frequently disrupted U.S. grain exports to Mexico. In summary, the new standards

specify three permissible grain treatments and limits the points of entry for selected grains (See MX 8126). It imposes additional declarations on the International Phytosanitary Certificate for wheat (TCK) and sorghum (ergot). It also requires cleaning and fumigation of surface transport vehicles if determined to be contaminated by vegetation or soil. Despite initial indications that this rule would have significant impact on U.S. grain trade, the Mexican government asserts that access for imported U.S. grain has not been a problem. Mexico accepted the status quo arrangements for declarations on U.S. export certificates for ergot in sorghum and TCK in wheat.

Marketing

In order to further stimulate wheat consumption in Mexico, market development activities should focus on consumer use of wheat products such as bread, cookies, etc. See Section I, page 2, for reference to U.S. Wheat Associates Mexico City Office.

RICE

Production

Mexican rice production has generally declined due to increased costs of inputs, low producer prices in relation to other crops, and relatively less expensive imports. Consequently, Mexican rice production in MY 1999/00 (October/September) is forecast to reach only 275,000 metric tons, milled basis, down about 15 percent from the 1998/99 production estimate. For 1998/99, the rice production estimate is revised upward to reflect more current producer and government information. Rice production will remain relatively less profitable than other crops, especially in the state of Sinaloa which is no longer one of the dominant rice producing states. Veracruz and Campeche are currently the dominating rice producing states, with Veracruz remaining an important milling center for imported rice.

Given the sharp decrease in reservoir levels in northern Mexico, normal rains throughout 1999 will be necessary to maintain what rice production remains in the state of Sinaloa. As noted earlier, crop area in the state of Sinaloa has fallen dramatically from 17,400 hectares in MY 1997 to 4,400 hectares in MY 1998. Of the total forecast harvested area of 85,000 hectares, about 43,000 hectares are located in Veracruz and Campeche, 4,471 hectares are in Sinaloa, with the remainder spread throughout other states.

Given that virtually all rice production in the major growing regions is irrigated, yields are expected to remain between 3.6 and 4.8 metric tons per hectare depending on the region and cultural practices of the farmers. Domestically produced rough rice is of good quality. Some less efficient milling operations, however, do produce lower quality milled rice.

Consumption

For 1999/2000, rice consumption is expected to expand as a result of population growth and more competitive consumer rice prices. Even with these increases, per capita rice consumption in Mexico is still one of the lowest in Latin America. For 1998/99, rice consumption has been revised downward to reflect current producer and government data. For 1997/98, consumption has also been revised downward to reflect official government data. The variety of consumer-ready rice mixes in Mexican grocery stores has increased somewhat over the past few years. Consumer acceptance is improving due to the variety of flavors and the ease of preparation.

Due to large imports, milled rice is an affordable food choice for many segments of the Mexican population. Prices of imported rice mixes are quite expensive. They have found, however, an excellent niche market among upper-income Mexicans.

Trade

Rice imports are forecast to increase in 1999/00 due to lower domestic production and competitive world prices. For 1998/99, the rice import estimate has been revised downward due to higher than expected domestic production and lower consumption. The import estimate for 1997/98 is revised downward to reflect official government data. The majority of imports are rough rice by brokers and millers.

In the early 1990's, because of world price relationships, millers preferred to import milled rice and package it rather than run their mills to process imported rough rice. To increase and maintain rural employment and make domestic rough rice more price competitive, the government of Mexico through NAFTA maintains a higher tariff on milled rice (8 percent) than on rough and brown rice (4 percent). This shift in relative tariff rates was aimed at increasing the amount of paddy rice imported by millers in Mexico, while decreasing the amount of milled imports. In addition, with larger supplies and hence attractive prices, U.S. rice has been and will continue to be more competitive in the Mexican market. Uruguay continues to try to get a foothold here but has been limited thus far by Mexico's phytosanitary concerns.

Price competitiveness has been the primary concern for importers, followed by quality. The relatively large U.S. crops in the 90's helped to reduce export prices and increase Mexican purchases of U.S. rice. U.S. rice exports to Mexico will continue to be large as long as prices are competitive.

Stocks

For 1999/00, ending stocks are forecast to decline from the previous year due to lower production and higher consumption. Estimated ending stocks for 1998/99 are revised upward considerably as the need for stock building is a major concern to avoid market shortages. Stock inventories for 1997/98 is revised upward to reflect official government data.

Policy

For 1999, rough and brown rice do not require an import permit, but have a 4 percent tariff. Milled rice does not require an import permit, but is subject to a 8 percent import tariff.

Marketing

Due to Mexico's reduced rice production, the time is right for increased market development activity in Mexico. Since milling margins are no longer protected by the government, each mill is looking for different ways to secure market share. Marketing activities should continue to center upon branded promotions and other avenues for creating niche markets for U.S. specialty and quality rice. In addition, with the overall low level of rice consumption in Mexico, providing nutritional information and advice on feeding programs to the Mexican government would help them to formulate more healthy diets and increase rice consumption in lower income areas of the country. The USA Rice Federation has a representative based in Mexico City (see Section I, Marketing) and conducted a very successful joint promotion with the U.S. meat Export Federation. It is very

important that U.S. rice be competitively priced relative to Asian and South American rice.

CORN

Production

Mexico's corn production is forecast to increase in 1999/00 (Oct-Sept) to approximately 18.5 MMT. The main reasons for this increase are improved weather and the tortilla price liberalization (See MX 9004). Since the GOM essentially liberated the corn tortilla price, domestic food and feed processors are aggressively competing for the domestic corn crop at the farm level. Reportedly, for example, as of mid-January 1999, domestic corn prices were higher than imported product (US$160.00/ MT vs. US$130.00/MT). With relatively higher prices, farmers could switch from alternative crops. This forecast assumes normal weather and an increase in harvested area.

Some parts of the northern Mexico have suffered from a lack of rain. Among them is Sinaloa, a major corn producing state for the fall/winter crop cycle. The lack of rain during 1998 in the central part of the state significantly reduced reservoir levels in three important dams in the Culiacan area. Thus, production in Sinaloa is expected to decline by over 47 percent as farmers switch to dry beans and safflower which use less water than corn. SAGAR indicates, however, that this reduction will be compensated by other states, such as Oaxaca, Tamaulipas and Chiapas. Consequently, the upcoming 1999 spring-summer harvest will likely produce a similar volume to a year ago (3.0 MMT). Similarly, lack of rain in the early stages of the 1998 spring/summer crop (harvest in fall/winter) in the state of Mexico decreased corn production in that state by over 30 percent.

Production of corn in Guanajuato increased as farmers increased planted area for the spring/summer 1998 crop cycle. Production in Jalisco, a major corn producing state for the same spring/summer crop cycle, increased by 18 percent to reach a record of 2.7 MMT. The increased production is partly attributable to greatly improved weather, particularly ample rainfall after the second quarter of 1998. Average yields for 1998's spring-summer crop in Jalisco have increased substantially — 3.7 MT/hectare compared to 2.8 MT/hectare a year ago. Approximately 95 percent of Jalisco's crop area is non-irrigated.

Instead of importing, private traders, tortilla makers and flour corn producers, were aggressively buying locally produced corn during the final stages of the spring/summer 1998 (harvest in the fall and winter), offering prices to farmers as high as 1,600 pesos/MT (US$160/MT). The benefits of these higher corn prices, however, were offset by increased credit costs. At the same time, the GOM assigned corn import quota allocations (TRQ) for the first quarter of 1999 (see MX 9017).

FAS/Mexico has used official Mexican government statistics for historical purposes. The revised figure for production in 1998/99 of 18.085 MMT reflects Mexican government data. Also, the production estimate for 1997/98 has been revised downward reflecting unfavorable weather conditions and the latest SAGAR data.

The general quality of the 1998/99 crop has been average due to normal weather conditions during the second half of 1998. The quality of corn grown in the north for the fall/winter season, however, is reported to be below average due to the dry conditions. Approximately 10 percent of the 1998 spring/summer crop was irrigated, compared to 64 percent for the 1998/99 fall/winter planting.

A flat-rate per hectare payment of 626 pesos (US$62.60) was given to farmers for the spring/summer 1998 crop

cycle and will be repeated for the fall/winter crop of 1998/99. The Government, however, has yet to announce the amount it will pay farmers for the spring/summer 1999 crop.

With the dismantling of CONASUPO, the parastatal food distribution company (see MX 8141 and MX 8148), the reference price for white corn has disappeared. CONASUPO's main priority was to ensure sufficient corn supplies for tortillas through subsidized corn prices. At the same time, it established reference prices for domestic corn. Now, farm gate prices are determined by market forces, while the GOM has apparently washed its hands of all corn pricing decisions. CONASUPO will suspend sales of corn for tortilla makers in April 1999.

Private sector analysts believe that as a result of CONASUPO's dismantling, inefficient producers will likely be forced out of the market. They also indicate, however, that the Government of Mexico has yet to define whether other governmental agencies, such as ASERCA (Support and Services for Agriculture and Livestock Marketing Agency), will provide some support to market corn. ASERCA is tasked with advising producers on methods for reducing waste and improving quality and profitability through better organization and development of an entrepreneurial approach. ASERCA is also involved with risk management (such as futures) and management the flat-rate per hectare payment previously mentioned.

In order to fill the gap left by the closing of CONASUPO's corn purchase operations, SAGAR is promoting a first-ever cash grain market, "Bolsa de Granos" (See MX 9025). Reportedly, the first corn auction on February 4, 1999, was a success with good participation by corn producers and tortilla-makers ("nixtamaleros"). The president of the Bolsa (formerly know as the Corn-Tortilla Club), indicated that the purpose of the Bolsa is twofold - to encourage farmers to be part of the domestic trade and to diminish price speculation. The Bolsa and the National Union of Corn Producers have reportedly made a commitment with the Finance Ministry to trade 20,000 MT of corn per month to tortilla producers.

In 1998, the rate of increase in the cost of farm input prices slowed from the previous year. According to official data, fertilizer cost decreased approximately 9 percent, while agricultural machinery and tractors increased 22 percent in 1998. Input costs are expected to increase at the rate of inflation in 1999, approximately 17 percent, according to private analysts. The input costs for corn production in the state of Sinaloa are detailed in Section II (Statistical Tables). The cost of production, however, does not include the cost of credit, which has increased. The interest rate on agricultural loans increased from around 30 percent in 1998 to over 40 percent currently.

National average corn yields are forecast to be approximately 2.4 metric tons per hectare for 1999/00. Given the increase in input costs (mainly credit) because of the inflation rate, many producers may not have the financial resources to use the same amount of inputs as in previous crop cycles. Thus, yields may be lower than expected. Yields vary significantly among Mexico's various regions, depending in a large part on the level of technology used. Corn production in the state of Sinaloa, for example, is highly mechanized, irrigated, and grown on large farms. Consequently, the yields are good — from 5.5 to 6.5 MT per hectare. On the other hand, corn production in Zacatecas is much less mechanized, non-irrigated, and grown on small private farms and *ejidos* (small communal plots of land). This lack of technology is reflected in the relatively low yields — from less than 1 to 2 MT per hectare.

In general, weather conditions have been variable thus far in 1998/99. Parts of the north have been very dry. Dam levels in the central part of Sinaloa, for example, were very low, thereby limiting the use of water for irrigation. Rainfall in non-irrigated areas of the Bajio was average and thus soil moisture levels were good for

the spring-summer 1998 crop. The states of Guanajuato, Jalisco, and Michoacan in west central Mexico make up the Bajio region.

Consumption

Total corn consumption is estimated to be 22.300 MMT in 1998/99 and is forecast to increase to approximately 22.6 MMT in 1999/00 based largely on population growth. Corn in Mexico has historically been almost exclusively a food grain rather than a feed grain. Corn is a staple in the Mexican diet, with per capita consumption of approximately 120 kilograms per year. The expected increase in total corn consumption reflects an increase in human consumption. Tortillas, most of which are made from corn, are a basic food staple. According to SAGAR, in calendar year 1998 estimated corn use was as follows: 1) 58% human consumption; 2) 26 % animal feed; 3) 11 %t industrial starch; 4) 1% seed; and, 5) 4 % waste.

Within the context of Mexico's NAFTA TRQ, the starch, poultry, and livestock industries import most of their corn needs because they prefer yellow corn and the majority of domestic production is white corn. The poultry industry is the major consumer of feed corn and sorghum, and the outlook for this sector, although still positive, is lower than previously estimated -- poultry meat production is forecast to increase 3 percent (See MX 9013) during 1999.

Trade

For 1999/00, Mexico is forecast to import approximately 3.9 MMT, down from 1998/99's estimate of 4.3 MMT due mostly to increased production. It is unlikely that Mexico will import any corn from sources other then the United States. The estimated MY 1997 export/import estimates have been revised upward based on current official Mexican data.

According to SECOFI, Mexico issued permits resulting in imports of 5.0 MMT of corn in calendar year 1998, higher than the 2.814 MMT NAFTA tariff-rate-quota (TRQ) for U.S. corn. Imports had been robust throughout most of 1998 because of the healthy growth in the economy.

The structure of the 1999 NAFTA TRQ (2.898 MMT for the United States) will continue as in 1998, with direct allocations to importers and industries by SECOFI. Thus far, SECOFI has allocated 1.5 MMT mainly to the livestock sector, cereal industry, wet-milling (starch) industry for most of its first quarter CY 1999 needs. Despite pressure from Mexican farmers, this allocation was justified on the basis of the skyrocketing domestic corn prices since the tortilla price liberalization. Corn tortilla producers and flour millers aggressively bought locally produced corn during the final stages of the 1998/99 fall/winter harvest, increasing the price to farmers. According to industry sources, the price farmers received in some areas of Mexico was as high as 1,700 pesos/MT (US$170) for corn. SECOFI is expected to begin allocating new import permits for additional corn by mid-second quarter 1999, probably to the hog industry first. Sources have thus far indicated that corn imports in calendar 1999 will likely exceed the TRQ.

Mexico will, over the long term, remain a substantial importer of corn from the United States. Any increases in corn production are unlikely to keep pace with demand. In addition, given the importance that timely rains play in Mexican agricultural production, wide swings can be expected in year-to-year imports.

Stocks

Mexico's ending stock position are forecast to decline slightly to approximately 820,000 MT in MY 1999 as demand for tortillas increases. The 1997 estimated ending stock position is revised downward due to lower than previously estimated domestic production. Also, MY 1998 ending stocks are expected to be higher than previous figures because consumption is expected to be less than previously anticipated.

Policy

With the implementation of the NAFTA on January 1, 1994, the United States eliminated the 0.2 cents per kilogram tariff on imported corn from Mexico. At the same time, Mexico converted its import licensing system to a transitional tariff-rate quota for the U.S. and Canada. The TRQ will remain in effect until 2008, with a 3 percent annual increase in quantity. The TRQ for U.S. corn in 1999 is 2.898 MMT. U.S. exports to Mexico in excess of the quota will be assessed a 163.4 % as the over-quota tariff for CY 1999. Over the first six years of the agreement, an aggregate 24 percent of the tariff will be eliminated. The remainder will be phased-out in equal annual installments over the rest of the 15-year transition period.

The United States will be the main supplier of corn to Mexico for the foreseeable future because of NAFTA. Thus, many believe the challenge not to be market share, but rather market growth. Credit continues to be tight in Mexico, thus credit terms, through the GSM-102 program, will remain a useful tool to promote U.S. corn in Mexico.

SORGHUM

Production

Mexican sorghum production for MY 1999/00 (Oct-Sept) is forecast to decrease slightly to approximately 6.2 MMT because of a probable switch from sorghum to corn by farmers. Reportedly, poultry and hog producers are anticipating a slowdown in demand for their products as a result of the ongoing deceleration in the economy. Both sectors are the main consumers of sorghum in Mexico. This decrease in production also reflects a slight decrease in planting area.

According to industry sources, as a result of the same problems selling sorghum from Bajio region, due to depressed prices, planting of sorghum for the next spring/summer 1999 crop should decrease. The states of Guanajuato, Jalisco, and Michoacan in west central Mexico make up the "Bajio" region, where the bulk of the spring/summer harvest is produced. The price of sorghum in Mexico has remained depressed in the last few months -- 900-1,100 pesos/MT (US$90-110), reflecting higher than expected domestic production and low international sorghum prices.

FAS/Mexico has used official Mexican government statistics for historical purposes. The increased production estimated for 1998/99 of 6.450 MMT reflects Mexican government data as well as the favorable weather conditions for the spring/summer crop in central Mexico. Also, the production estimate for MY 1997 has been revised downward based on the latest official data.

Harvested area of sorghum in MY 1999 is expected to decrease to 1.85 million hectares due to the switch from sorghum to corn. According to an industry source, weather at planting will dictate whether farmers plant corn or sorghum. If the rains are on time farmers are more likely to plant corn. If the rains are later, farmers are

more likely to plant sorghum. Thus far in MY 1998, water availability has been adequate in most parts of Mexico for sorghum. Approximately 24 percent of the fall/winter crop is irrigated and around 45 percent of the spring/summer crop is irrigated. Based on revised government statistics, harvesting area in MY 1997/98 and MY 1998/99 have been revised downward.

Sorghum yields are expected to remain the same in MY 1999 as in MY 1998, at approximately 3.35 metric tons per hectare. Given the expected increase in input costs due to the inflation rate, however, many producers may not have the financial resources to use the same amounts of inputs as in previous crop cycles. Thus, yields may be lower than expected.

The 1998/99 fall harvest was reported as generally being of good quality due to timely precipitation. Most balanced feed producers consider sorghum from the Bajio better in quality than Tamaulipas-produced sorghum. This is due to the lack of covered storage in Tamaulipas and poor transportation from Tamaulipas to end users in Central Mexico.

Consumption

Due to the sluggish demand for feed grains, sorghum consumption is forecast to increase only moderately to 9.5 MMT in MY 1999. Sorghum consumption growth by the poultry industry will be dampened due to the unfavorable economic conditions discussed earlier. The poultry industry is the major consumer of sorghum in Mexico. This industry is not likely to expand as rapidly in 1999 as in the previous year due to the weak GDP growth and deteriorated consumer purchasing power (see MX 9013). The consumption estimates for MYs 1997 and 1998 are revised upward based on more current industry information which reveals greater than previously estimated consumption.

Trade

For 1999, imports are forecast to increase by 200,000 MT to 2.9 MMT. While total sorghum production and use is expected to remain practically stagnant in MY 1999, this increase in imports will be necessary to maintain a pipeline stock level. Mexico has drawn heavily on stocks during MYs 1997 and 1998 and will be not able to continue this trend in 1999. The 1997/98 import estimate has been increased sharply to 3.154 MMT based on official trade data from SECOFI. This increase is the result of significantly greater demand than estimated earlier. Likewise, imports for MY 1998 are revised downward based on more current official trade data which reveals higher than previously estimated domestic production.

NOTE: Although there are substantial differences with U.S. export data, this report uses Mexican import statistics. The data for CY 1998 are for Jan-Sept only.

Stocks

Ending stocks are forecast at approximately 904,000 MT for MY 1999 and 1.3 MMT for MY 1998. Generally, private feed millers keep approximately one to two months supply of feed in stock. The estimate of 1996/97 ending stocks has been raised substantially to a more traditional level based on official data.

BEANS, DRY EDIBLE

Production

Production for MY 1999 is forecast to increase slightly to 1.330 MMT assuming normal precipitation. The current relatively low producer prices, however, could draw less area into dry bean production. As in the past, the 1999 fall/winter harvest is expected to account for approximately 74 percent of total dry edible bean production, with the remainder coming from the spring/summer harvest. The production estimate for MY 1998 has been revised upward based on SAGAR's most recent official data.

The area harvested for MY 1999 is forecast at 1.970 million hectares, which reflects a normal bean crop that would result from normal weather. The estimate of total crop area harvested for MY 1998 has been lowered slightly to 1.996 million ha. based on new information from SAGAR. Weather continues be the predominant crop factor given that over 75 percent of Mexico's bean area is unirrigated. In the Section II (Statistical Tables) are the average production costs for Sinaloa during the 1997/98 and 1998/99 fall/winter seasons. This budget does not include credit costs.

The overall yield for MY 1999 dry bean crop in Mexico is expected to reach about 0.67 metric tons per hectare, similar to the average yield in MY 1998. Because relatively better weather conditions, the average yield in Zacatecas increased slightly from 0.42 MT/hectare for the spring/summer 1997 crop to 0.45 MT/hectare for the spring/summer 1998 crop. Low reservoir levels in the central part of Sinaloa could affect the dry bean yields in that state. For the spring/summer 1998 crop cycle the quality of dry beans in Zacatecas and Durango was below average due the delayed onset of the normal summer rainy season.

Despite the delayed onset of 1998's normal summer rainy season, production was not reduced in Zacatecas, Durango nor Chihuahua, which are the predominant states for the fall-harvested dry bean crop. Subsequently, the dry weather in the winter of MY 1998 caused traditional corn land to be moved into beans (see Corn Production section). In Sinaloa, for example, growers planted 207,000 ha. of dry beans against 183,000 ha. planted a year ago. As a result, industry sources estimate that total 1999 spring/summer harvest will produce approximately 440,000 MT of dry edible beans. Last year, Mexico harvested 336,153 MT. Growers traditionally plant their fall/winter crop from September to February and harvest it from March to June.

Some dry bean farmers have continued to use PROCAMPO payments as collateral for loans. The payment for the fall/winter 1998/99 crop cycle will remain at 626 Pesos/Ha. The government has yet to announce the payment level for the spring/summer 1999 season.

With current high production and the abrupt ending of CONASUPO's bean buying operations (see MX 8141 and MX 8148), confusion has been widespread among producers, consumers and the GOM alike as they wrestled with finding a "fair" dry bean producer price.

Traditionally, CONASUPO bought approximately 30 percent of the domestic crop, with the rest marketed by the private sector. The purpose of CONASUPO's purchases was to market this basic food staple at reasonable prices throughout Mexico. In addition, it established a floor price for domestic dry edible beans. Since CONASUPO's recent retirement from dry bean purchasing, market prices have plummeted and producers of "clears" (mostly light colored mayocoba-type beans) are currently being offered 4,000 pesos/MT (US$0.18/lb). The floor price for last year's fall/winter crop ranged from 6,200 to 7,000 pesos/MT, depending upon the variety. As a result, producers are complaining about this price because they consider it extremely low and have called for government support for bean marketing.

The GOM is currently attempting to fill the market gap left by the closing of CONASUPO's bean purchase operations through several alternatives:

a) By means of ASERCA with its "Marketing Support Program". ASERCA's budget, however, for crop marketing in the current fall/winter harvest has been sharply reduced from 500-600 million pesos in 1998 to only 100 million pesos this year. Consequently, ASERCA officials recognize that the agency's possibilities to participate in the bean market are very limited.

b) On February 10, 1999, the GOM announced that, in order to fill the market gap left by the closing of CONASUPO's bean purchase operations, it was considering a first-ever nonrecourse loan program to provide producers with 4,000 pesos/mt up-front at 39 percent interest until the crop was marketed in Sinaloa. All contacts emphasized that prices were extremely low because of surplus production and that Sinaloa growers had pressured SAGAR and SECOFI to delay imports until the domestic crop was marketed (see Trade section below).

Consumption

The forecast for dry bean consumption in MY 1999 is 4.9 MMT, an increase of approximately 3.1 percent. Dry beans are a basic food staple in Mexico, and consumption should increase because of the current slowdown in the economy. It is likely that middle income consumers will switch to dry bean consumption to offset the loss in purchasing power. Per capita dry bean consumption in Mexico continue to be one of the highest in the world, at approximately 14/kg per year.

Trade

Imports are forecast to be approximately 80,000 MT for MY 1999, based on adequate rainfall for the domestic crop and large carryover stocks. The MY 1998 import estimate has been revised downward significantly to 70,000 MT due to higher than expected production and because the GOM has stated that it intends to delay the 1999 bean TRQ auction until at least March, possibly April, in order to avoid undermining prices further. The GOM is concerned that higher production and low prices would cause a surplus stocks of dry beans.

According to trade sources, as in previous years, the lack of definition of the auction date and delivery periods is causing uncertainties in the marketplace. As Mexico is the largest market for U.S. dried beans, these uncertainties could significantly effect U.S. producers' planting decisions, prices, and other factors, the sources indicate. Moreover, sources state that currently there is a shortfall of black beans in the Mexican market (see MX 8156).

According to industry sources from Sinaloa, if bean prices within Mexico do not rise much above the current price, small quantities of select quality Mexican beans could be exported to Brazil and other neighboring countries.

Because of the overall influence of weather on Mexico's dry bean production, Mexico will continue to be in and out of the international market in the future. If Mexico is in the market, and U.S. prices are high, importers will likely continue to look toward other sources of supply, based not on quality, but on price.

NOTE: Although there are substantial differences with U.S. export data, this report uses Mexican import statistics. The data for CY 1998 are from Jan-Sept only.

Stocks

The ending stocks estimate for MY 1998 has been increased to 169,000 because of higher than expected production. For MY 1999, ending stocks are forecast to increase further to 274,000 MT of mostly light-colored beans as consumption rises only slightly.

Policy

On January 1, 1994, under the NAFTA, Mexico converted its import licensing regime for the United States and Canada to a transitional tariff-rate quota. (The TRQ grows at a 3-percent annual compounded rate over the 15-year transition period starting in 1994 and ending in 2006.) For the United States in 1999, duty free access to the Mexican market is set at 57,963 metric tons. . The over-quota tariff is 105.6 percent for 1999. Over the first 6 years of the agreement, an aggregate 24 percent of this over-quota tariff will be eliminated. The remainder of the tariff will be phased-out over the rest of the transition period.

During 1999 Canada has duty-free access for 1,738 metric tons of dry beans. The structure of the over-quota tariff phase-out and growth in the quota amount is the same as for the United States.

At the same time, the United States eliminated its tariff on imported dry beans from Mexico as of January 1, 1994. The immediate phase-out of the U.S. tariff on dry bean imports has had little impact due to the fact that it is relatively small. Some Mexican bean packers might see this as an opportunity to market Mexican bean varieties under their own labels in the United States to Hispanic consumers. In any event, the amount of exports would be relatively small.

By gaining a guaranteed minimum access for U.S. dry beans each year, Mexico will become a more stable import market, with imports driven more by market forces than political decisions. If Mexico's import needs again are greater than the TRQ quantity in upcoming years, the United States is guaranteed MFN (most-favored nation) tariff treatment for additional exports.

Marketing

In October 1998, the National Dry Beans Council (NDBC) conducted its second successful international dry bean congress in Mexico City. The purpose is to provide traders with updated market information. The NDBC has a full-time representative located in Mexico City. See Section I, Marketing for contact information.