



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 8/30/2001

GAIN Report #MX1157

Mexico

Tree Nuts

Annual - Pecans

2001

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Report Highlights:

Production should significantly increase in the next three to five years, given normal growing conditions. As farmers have continued planting new trees in response to the attractive prices associated with the U.S. export market, which favors some of the new Mexican pecan varieties. This trend of new plantings should continue for the foreseeable future, if prices continue to be relatively attractive.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1], MX

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SECTION I. SITUATION AND OUTLOOK

Pecan Situation and Outlook: Production should significantly increase in the next three to five years, given normal growing conditions. As farmers have continued planting new trees in response to the attractive prices associated with the U.S. export market, which favors some of the new Mexican pecan varieties. This trend of new plantings should continue for the foreseeable future, if prices continue to be relatively attractive.

The main pecan producing state in Mexico is Chihuahua, with approximately 70 percent of total production. Coahuila, Sonora, Durango, and Nuevo Leon are also important producing states. The main pecan varieties grown in Mexico are Western and Wichita, which account for about 80 percent of new variety production. The Western is the most important variety because it adapts well to a dry, hot climate and can also withstand poor cultural practices. There are also native varieties whose yields and kernel percent are significantly lower than the improved varieties.

SECTION II. STATISTICAL TABLES**PS&D, Pecans, In-shell Basis**

(Hectares, Metric Tons, Trees)

PSD Table						
Country:	Mexico					
Commodity:	Pecans, In-shell Basis					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Market Year Begin	10/00		37164		10/02	
Area Planted	45630	49500	45700	51500		53500
Area Harvested	43795	48500	44450	50000		51500
Bearing Trees	2870000	2910000	2875000	3000000		3090000
Non-Bearing Trees	145000	145000	140000	140000		135000
Total Trees	3015000	3055000	3015000	3140000		3225000
Beginning Stocks	0	0	0	0		0
Production	58000	61900	59000	62000		63000
Imports	3300	2677	3200	3200		2500
TOTAL SUPPLY	61300	64577	62200	65200		65500
Exports	30300	36845	30100	36500		34200
Domestic Consumption	31000	27733	32100	28700		31300
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	61300	64577	62200	65200		65500

Note: Conversion factor used from shelled to in-shell basis, 2.00

Trade Matrix

Pecans, Inshell			UNITS: Kilograms		
Exports To:	2000	2001*	Imports From:	2000	2001*
U.S.A	21831000	1868000	U.S.A.	2033000	33541
Other			Other		
Brazil	74250	0	Turkey	764	0
France	7820	3396	China	764	0
Netherlands	3700	0	Brazil	0	624
Total of Other	82070	3396	Total of Other	1528	0
Others not listed	0	0	Others not listed	382	1042
Grand Total	21913070	1871396	Grand Total	2034910	34583

Pecans, Shelled			UNITS: Kilograms		
Exports To:	2000	2001*	Imports From:	2000	2001*
U.S.A	7466000	2534000	U.S.A.	321000	0
Other			Other		
Total of Other	0	0	Total of Other	0	0
Others not listed	0	0	Others not listed	0	0
Grand Total	7466000	2534000	Grand Total	321000	0

SOURCE: World Trade Atlas, Mexico Edition

NOTE: * indicates that figures are for January thru May.

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

PRODUCTION

Mexican pecan production for MY2002 (October/September) is forecast to increase to 63,000 MT or about 1.6 percent over MY2001 production. This increase is due to the alternate bearing crop cycle in several producing states. Production for MY2001 is revised upward due to an increase in the number of bearing trees. Pecan production for MY2000 is revised upward to reflect more current information from both pecan producers associations and government data.

The Mexican pecan yield for MY 2001 is forecast downward from the previous year to reach 1.22 MT/hectare due to new non-productive trees being planted. The average Mexican pecan yield for MY 2001 is expected to reach 1.26 MT/hectare. This increase in yield is associated with the alternate bearing crop cycle for pecans. Yields for the improved varieties in Chihuahua can be as high as 1.80 MT/hectare. Yields for native varieties tend to be around .50 MT/hectare.

Crop Area

Production should significantly increase in the next three to five years, given normal growing conditions. As farmers have continued planting new trees in response to the attractive prices associated with the U.S. export market, which favors some of the new Mexican pecan varieties. This trend of new plantings should continue for the foreseeable future, if prices continue to be relatively attractive. Furthermore, data for MY2000 and MY2001 of this report corresponding to area planted, area harvested and bearing trees have been revised upward as producer associations have improved their information gathering systems with the help of the Secretariat of Agriculture (SAGARPA's) personnel in the field.

Inputs

The main increase in the cost of production has been electricity costs associated with irrigation. For example, the cost of electricity to operate pumps for wells to irrigate pecan orchards in Chihuahua is a major cost since 100 percent of commercial pecan production is irrigated and approximately 50 percent of the farms are irrigated by wells. Interest rates for CY2001 have also been as high as 21.7 percent annually for agricultural loans.

Crop Quality

The quality for pecans in Mexico is expected to be average for MY 2001. In MY 2000, because of high production, some of the Mexican crop suffered from light weight nutmeat. In general, the quality of Mexican new variety pecans is reportedly considered by U.S. pecan traders to be exceptional. The quality of pecans is based on percent kernel and color. The higher the percent kernel, or nutmeat yield, the higher the quality. Any pecan over 50 percent kernel is considered a high

quality pecan. The improved varieties in Mexico average around 55 percent kernel. Also, the lighter the color the higher quality. The less humid the weather the lighter the color. In northern Mexico the color is very light because of the dry conditions.

Prices

The price Mexican farmers receive for their pecans is a function of the U.S. market. If supply is tight in the U.S. market, prices will be high in the Mexican market. High-percentage kernel pecans are generally exported and low-percentage kernel pecans are for the domestic market. The price the farmer receives from pecan shellers is based on the percent kernel of the pecan. Improved varieties, such as the Western, which have around 55 percent kernel, receive a premium price, while native varieties, which have around 40 percent kernel, receive a lower price. According to several farmers, buyers for the domestic market generally buy at around 40 percent kernel and will not pay a premium price for pecans over 53 percent kernel. Because of the high percent kernel, Mexican prices for export quality pecans are very competitive with U.S. prices for new variety pecans. Since the harvest for MY2001 production begins in October firm prices are yet available for this year's crop. Prices for MY2000's harvest ranged from US\$0.55 to 0.57 lb. at 55 percent kernel.

CONSUMPTION

Domestic consumption in MY2002 is forecast to increase to around 31,300 MT due to demand fueled by the general population growth. Consumption for MY2001 is revised downward from our previous estimate as exports increased more than expected and were channeled away from domestic usage. For MY2000 consumption was revised downward to reflect final government data. All the above estimates are supported by field travel to the main pecan producing area in Mexico, the state of Chihuahua.

Because of the benefits derived from selling into the export market, such as high prices and payment on delivery, growers tend to sell for export first. Mexican companies then import lower quality pecans from the United States if there is a need to meet domestic demand.

Domestic consumption is very price elastic. Consumption goes up when prices are low. Retail outlets, confectioners, bakeries and food processors are the largest consumers of Mexican pecans, after the export market. There is also a significant informal market for inshell pecans. Christmas is the most important consumption seasons for pecans.

TRADE

Mexican pecan exports are expected to decrease in MY2002 to around 34,200 MT from the previous year's revised figure because of increased domestic consumption fueled by general population growth and continued demand from the bakery and confectionary industries. Exports for MY2001 are revised upward from our previous estimate due to an expected increase in demand from the export market. An increase in production is also expected due to the increase in number of bearing trees and improved

inputs. MY2000 exports are revised upward to reflect final government data. Pecan imports for MY2002 are forecast downward from the previous year's estimate due to an expected increase in domestic production. In MY2000 the import figure is revised downward due to the increase in production of domestic pecans and to reflect government data.

World trade in pecans is generally on an shelled basis. Mexico is unable to be a significant exporter to countries other than the United States because of the lack of quality shelling operations.

STOCKS

Mexico lacks cold storage facilities. Thus, according to some sources, because there are no duties for pecans under the NAFTA, some pecans are exported to the United States for storage and then reexported to Mexico for sale later in the year when there is a shortage of pecans in Mexico and prices are higher. For the past several years, there have generally been no stocks at the end of the marketing year because the price of pecans is high enough to clear the market.

POLICY

Mexican import duties are classified according to the Standard International Harmonized System, as established under the provisions of the North America Free Trade Agreement (NAFTA). Sub-Chapter 08.02 of the Mexican Tariff System contain the tariffs for pecans. Under NAFTA, Mexican imports of pecans (HS#0802.90.99) do not require an import permit and are duty-free.

MARKETING

There are two major shelling plants located in Cd. Juarez, Mexico that shell for the domestic and U.S. markets. There are also around 5 small shelling operations that shell for the domestic, wholesale market. Infrastructure is deficient because there are not enough cold storage warehouses to store the product throughout the year. Because of this lack of storage, the market for pecans is saturated at harvest (October through December) and short of pecans later in the year. Retail distribution to bakeries, confectioners, food processors, and retail outlets is left to the wholesale market in Mexico, which is also short of storage facilities.

Competition at the retail level in Mexico is critical since a large part of all sales are through this channel. The principal retail channels for consumer-ready food products are supermarkets, club stores, convenience stores, the terminal markets and corner grocery stores. However, only some of the retail chains are set up to import directly. This system of indirect purchasing or buying through local distributors/representatives is expected to somewhat change over the next few years but currently this is the dominant business practice.

There are also the wholesale markets which are a very important distribution network found in almost every

major city in Mexico. There are currently more than 26 of these supply centers in Mexico. These terminal or central markets serve as a major source of supply for all types of food related businesses: supermarkets, wholesalers, corner grocers and restaurants. For example, the largest wholesale market in Mexico is the one found in Mexico City which services the city's needs plus those of the cities in the four surrounding states. This is a well accepted form of business, and the principal way small and medium size food related establishments procure many of their food products.

U.S. firms wishing to penetrate the Mexican market should consider hiring the services of a locally based distributor/representative in order to operate and establish a successful business relationship with domestic buyers. For the majority of small and medium sized U.S. food companies, it is probably best to tap into a preexisting distribution network, either that of a distribution company or a Mexican food processor.