Required Report - public distribution

**Date:**3/18/2015
**GAIN Report Number:**MX5011

# Mexico

**Post:** Mexico City

# Grain and Feed Annual

# 2015 Grain and Feed Annual Mexico

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**Report Highlights:**
The marketing year (MY) 2015/16 corn production is forecast at 23.4 million metric tons (MMT). Similar to last year, Mexican corn production should remain relatively constant, despite lower prices, due to the lack of attractive prices from alternative crops. MY 2015/16 corn imports are forecast slightly higher at 10.3 MMT due to increased feed demand from Mexico's livestock sector. Post/New MY 2015/16 production forecasts are up for wheat and sorghum at 3.7 MMT and 7.7 MMT respectively, while rice production is forecasted at 240,000 MT (rough production). Responding to demands from various grower organizations about low commodity prices and the need for more assistance at the farm level, the Government of Mexico (GOM) announced new or updated support programs.

**Commodities:**
Wheat

**Production**
The Post/New total Mexican wheat production for MY 2015/16 (July to June) is forecast at 3.7 million metric tons (MMT), approximately 0.8 percent higher than the previous year's revised estimate. Higher harvested area and favorable weather conditions in the key fall/winter wheat production areas of Northwest Mexico (Sonora and Baja California) are the main reasons for the slight increase.

Official and industry contacts stated that this year's wheat production has benefited from favorable weather conditions and sufficient water availability in the reservoirs and dams used for irrigation purposes in Mexico's main producing wheat states. In Sonora, for example, according to the National Water Commission (CONAGUA), at the beginning of the sowing season in November, 2014, the Alvaro Obregon dam, which caters to the agricultural area in the Yaqui Valley, recorded 91.4 percent of capacity, while the Adolfo Ruiz Cortines dam which irrigates farmland in the Mayo Valley, registered 106.7 percent capacity (1.01 million cubic meters).

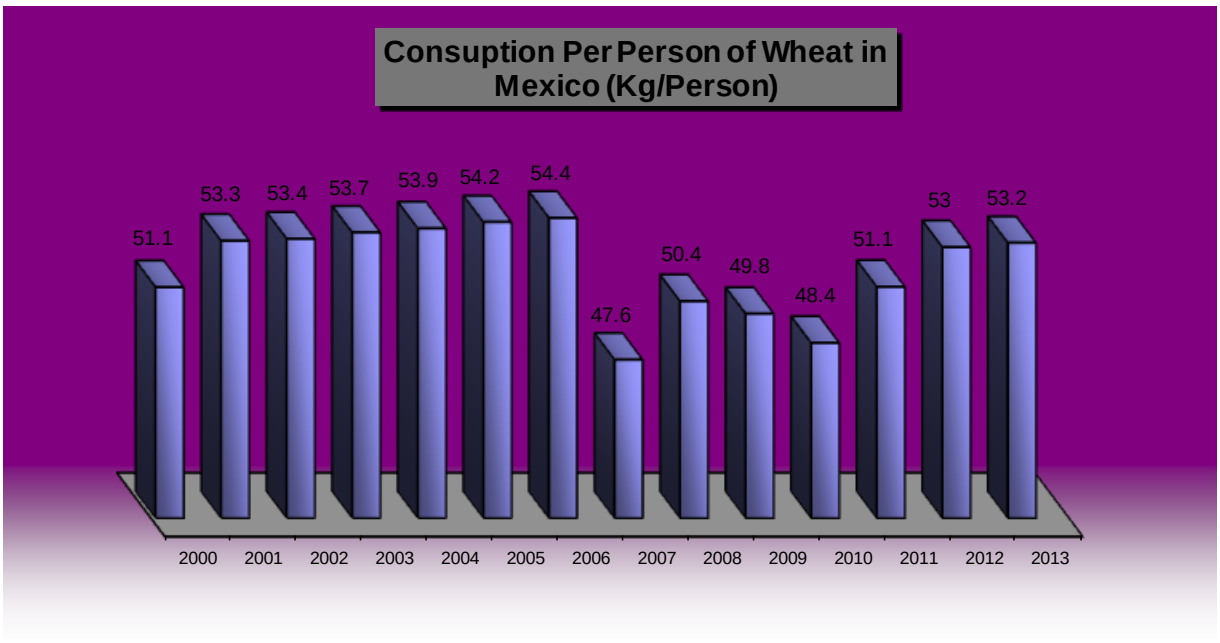
Sonora continues to be the main wheat producing state with approximately 46 percent of total wheat production, followed by Baja California, which contributes 16 percent, and Guanajuato with 15 percent. Durum wheat continues to be the principal crop in Sonora and Baja California.
The majority of the wheat grown in the north and northwestern states of Baja California and Sonora is produced using advanced technology methods similar to those used in the United States. According to Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), nearly 89 percent of the nationwide wheat planted area is irrigated.

In the fall/winter 2014/15 crop cycle, a larger portion of durum wheat plantings took place in Sonora and Baja California due to the favorable farm prices registered from the previous season and that durum tends to have higher yields as well as being more resistant to disease. In addition, private analysts noted that another factor that has favored the planting of more durum wheat has been the use of the "Forward Contract Program" (see Corn Policy Section).
In Sonora, for example, official sources stated that of the total wheat area planted, approximately 85 percent was durum variety (or "*cristalino*"), which is intended for the production of pasta and animal feed. The remaining 15 percent was soft wheat for the production of wheat flour. Sonora growers planted approximately 312,000 hectares (ha.) of wheat, up 5 percent from initially estimated in the 2014/15 fall/winter crop cycle. The ideal date for sowing wheat in Sonora is mid-November (although in 2014, some growers began planting during the third week of November), with all plantings concluding in December. The wheat harvest takes place the following May and June. The average yield expected in Sonora initially was 6.3 MT/ha. Private sources stated that some producing areas in Sonora have registered unusually high levels of humidity which could adversely affect grain quality levels, but not production levels. However, they noted that it will not be until the harvest season when a better assessment of the wheat quality can be made. Other wheat producing areas like Baja California (e.g. Mexicali) did not report any quality problems.

The Post/New total wheat production and harvested area estimates for MY2014/15 (July/June) have been revised slightly upward from USDA/Official, based on updated official data from SAGARPA.

**Consumption**

Mexico's total consumption for MY 2015/16 is expected to increase slightly compared to MY 2014/15, in part due to the growing popularity throughout Mexico of bread products and the continued interest among consumers for other types of wheat-baked goods. Private analysts stated that despite the fact that historically Mexican consumers have preferred corn tortillas over bread, this trend has been gradually reversed in the last few years. This growing trend is due to the relative improvement of consumer purchasing power and the higher price of corn tortillas, which has increased the share of wheat consumption over corn even more. According to the Mexican Millers Association (CANIMOLT), wheat consumption in Mexico is expected to grow in the next two decades, driven mainly by population growth and higher per capita consumption.




**Source: Elaborated with SIAP-SAGARPA-CONAPO and USDA data.**

Based on most recent data from CANIMOLT, Mexico has 88 different millers located across the country that process approximately 8.21 MMT of wheat and produce 4.7 MMT of flour each year. In 2013, for example, the milling industry consumed 6.2 MMT of wheat, which was used to manufacture 4.7 MMT of flour and meal and 1.6 MMT of bran (a byproduct of wheat milling process). The remaining byproducts are consumed by the livestock sector. The millers have a capacity of approximately 9.0 MMT of production. CANIMOLT stated the wheat milling industry has continued to consolidate in the last few years through the acquisitions and fusions of some millers. Moreover, 53 percent of the installed milling capacity is located in or around Mexico City, Toluca and Puebla metropolitan areas - where slightly more than 50 percent of the Mexican population is located

CANIMOLT information indicates that flour production is distributed as follows: 68 percent for breads, cakes and biscuits (artisan and industrial bakeries); 9 percent to elaborate cookies; 11 percent for pasta soup, 7 percent for wheat tortillas and 5 percent for other products such as pizzas, snacks, etc.

Mexico boasts approximately 53,000 industrial bakeries, of which 39,956 are artisan bakeries, concentrating their efforts on the production of white bread, sugarloaf, wheat tortillas and cakes, while

8,034 are non-industrial type bakeries; 6,673 tortilla makers and 1,193 are facilities concentrated on elaborating a single product such as donuts, biscuit, cakes, pastries, etc.

**Trade**

Post/New total wheat imports for MY 2015/16 are forecast to decline to 4.2 MMT, due to an increase in domestic production and lower demand for imported feed wheat. Private analysts indicate that the slightly higher domestic production, compared to the previous year, should result in a decrease in overall wheat imports. Price and quality will decide the import source. However, many Mexican millers continue to acquire U.S. wheat due to its transportation advantages. In light of this fact, Post/New MY2015/16 wheat imports from the U.S. are expected to increase just slightly to 3.25 MMT.

Post/New MY2015/16 wheat exports are forecast to remain unchanged at 1.3 MMT, assuming a relatively neutral to slightly bullish international wheat market.

Post's wheat export estimate for MY 2014/15 has decreased to 1.3 MMT from the USDA/Official estimate. These figures are based on private traders' information and preliminary official data from the official government statistics covering the first seven months of the marketing year.

**Stocks**

For MY 2015/16, the Post/New ending stocks forecast is estimated to decrease to 290,000 MT, due primarily to an increase in domestic consumption. The Post/New MY 2014/15 stock estimate has been increased from USDA/Official estimate to 540,000 MT due to lower-than-previously estimated exports.

**Production, Supply and Demand Data Statistics:**

**Table 1: Mexico Wheat Production, Supply and Demand for MY2013/14 to MY2015/16**

| Wheat | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Jul 2013 | | Jul 2014 | | Jul 2015 | |
| Mexico | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| **Area Harvested** | 638 | 638 | 692 | 696 | 0 | 700 |
| **Beginning Stocks** | 278 | 278 | 319 | 319 | 0 | 540 |
| **Production** | 3,377 | 3,377 | 3,660 | 3,671 | 0 | 3,700 |
| **MY Imports** | 4,636 | 4,636 | 4,600 | 4,600 | 0 | 4,200 |
| **TY Imports** | 4,636 | 4,636 | 4,600 | 4,600 | 0 | 4,200 |
| **TY Imp. from U.S.** | 3,153 | 3,153 | 0 | 3,200 | 0 | 3,250 |
| **Total Supply** | 8,291 | 8,291 | 8,579 | 8,590 | 0 | 8,440 |
| **MY Exports** | 1,322 | 1,322 | 1,500 | 1,300 | 0 | 1,300 |
| **TY Exports** | 1,322 | 1,322 | 1,500 | 1,300 | 0 | 1,300 |
| **Feed and Residual** | 350 | 350 | 300 | 300 | 0 | 250 |
| **FSI Consumption** | 6,300 | 6,300 | 6,450 | 6,450 | 0 | 6,600 |
| **Total Consumption** | 6,650 | 6,650 | 6,750 | 6,750 | 0 | 6,850 |
| **Ending Stocks** | 319 | 319 | 329 | 540 | 0 | 290 |
| **Total Distribution** | 8,291 | 8,291 | 8,579 | 8,590 | 0 | 8,440 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

**Corn**

**Production**

Total Mexican corn production MY 2015/16 (October to September) forecast is 23.4 MMT. Harvested area, assuming normal weather conditions, is estimated at 7 million ha. Stronger domestic demand has been a factor in maintaining fairly stable domestic corn production over the last two years, even with lower farm prices. The lower corn prices have resulted in a significant increase in feed use driven mainly by the poultry and livestock sectors.

For MY2014/15, the Post/New total corn estimated production has been revised upward from USDA/Official estimates to 24.0 MMT, due to more complete data from SAGARPA. Corn output was increased due to higher than expected planted area and favorable weather conditions. According to SAGARPA figures, as of January 30, 2015, corn planted area for the 2014/15 fall/winter crop cycle was 18 percent higher than the similar crop cycle a year earlier. This increase in planted area is mainly attributed to higher planted area in Sinaloa. During this crop cycle, Sinaloa farmers planted approximately 100,000 ha more than the same crop cycle a year ago due plentiful water levels in Sinaloa's reservoirs which are used for irrigation purposes. Based on the CONAGUA figures, as of February 18, 2015, water levels in Sinaloa's reservoirs were at 62.5 percent capacity, with the two main water reservoirs, Luis Donaldo Colosio and Miguel Hidalgo, at levels of 76.9 and 72.8 percent of capacity, respectively. With this increase in planted area, corn production is expected to reach approximately 5.0 MMT in Sinaloa instead of 3.7 MMT that was initially forecast by SAGARPA and private sources.

Sinaloa growers regularly plant non-genetically engineered (GE) hybrid corn, which has reportedly shown to increase yields. However, these higher yielding hybrids have not been widely adopted elsewhere in Mexico due to a combination of legal and technical issues.
Sinaloa continues to be the main source for commercial white corn production in Mexico for the fall/winter crop cycle, representing approximately 70 percent of total fall/winter crop production. Also, Sinaloa's corn production, which is almost all irrigated, accounted for nearly 24 percent of total domestic production. Practically all of the corn produced in Sinaloa is consumed in other states. Harvest is expected to occur in May and June. At this point in the season, the estimated average yield for the 2014/15 fall/winter crop cycle is forecast to be 5.481 MT/ha, which is lower than last year's 5.603 MT/ha when weather conditions were even more favorable.

As noted, most of Sinaloa's corn production is white corn. Private sources indicate that despite conversion schemes (i.e. government supports) that SAGARPA tried to implement to attract corn growers to plant more yellow corn or sorghum instead of white corn; so far it appears to be unsuccessful. (See 2013 GAIN report MX3078 "Extreme Weather Conditions Bring Mixed Result to Mexico's Grain Production"). Reportedly, of the approximately 200,000 ha of white corn production that was planned to be substituted with either yellow corn or sorghum, only 25,000 ha of yellow corn and 26,000 ha of sorghum were planted.

There are many reasons why Mexican corn farmers traditionally prefer to produce white corn over yellow corn, among others, the white corn market pays a premium over yellow corn as it is preferred for tortilla making (the most important source of calories for many Mexicans) in the domestic food market. Moreover, white corn production is relatively less expensive than yellow as farmers have better access to local technology and inputs, such as seeds that have been locally adapted. In the case of Sinaloa, for example, some private and official sources argue that yellow corn yields are lower than white corn yields due to lack of quality yellow corn seed as well as distinctive climate conditions for that particular

region that favors white corn. In addition, overall production costs tend to be lower compared to yellow corn production.

Growers also argue that with white corn they have two market options; markets for human consumption and markets for animal feed use, while with yellow corn they only have the option of the animal feed market. Also, smallholders and subsistence farmers can use white corn for self-consumption.

Mexico is the world's sixth largest producer of corn, third largest corn importer, and the sixth largest consumer of corn. In Mexico, corn is by far the most important agricultural commodity, both in terms of production and consumption.

Corn is grown throughout the year during two seasons: spring-summer (April-March) and fall-winter (October-September). Approximately 75 percent of Mexican corn is obtained from the spring-summer season and 65 percent of the corn is produced from dry land farming. The 2014 spring/summer crop (harvested mainly last November and December 2014), has been reported of good quality due to favorable weather conditions.

According to private analysts, the Mexican corn market is different than most, as corn to a relative degree, is considered a food grain rather than a feed grain. Because of this difference, Mexico has developed two distinct corn markets: one for white corn, which is mainly for human consumption (although some goes to feed, especially at the smallholder and subsistence farming levels), and one for yellow corn, which is mainly for feed use although some goes to the starch industry.

The average yield for the MY 2015/16 corn crop in Mexico is forecast at 3.343 MT/ha, assuming normal weather conditions. However, yields continue to vary significantly throughout the country, depending in large part on the level of technology used. For example, on average, Sinaloa has yields similar to those obtained in the United States due to the advanced farming technology methods used by the growers of this state. The overall average yield for the MY 2014/15 corn crop in Mexico is expected at 3.357 MT/ha, which is higher to that obtained in MY 2013/14, again due to favorable weather conditions.

As a result of the lower farm gate corn prices that reduce farmer's purchasing power for crop inputs, some are discouraged from using fertilizers as well as deterred from making other productivity investments. In addition, many corn growers continue to face major marketing obstacles, such as limited access to rural roads, suitable markets for their harvested crop, and the lack of storage, which all result in disincentives to corn production in certain parts of the country. Furthermore, yields are also being impacted by the lack of adoption to new technologies. For example, inefficiencies still exist in much of Mexico's inadequate irrigation infrastructure. There is a notably absence of high-tech farm machinery such as harvesters, only a modest use of hybrid seeds, and the absence of permits issued by the Government of Mexico for commercial production of GE corn.

Regarding GE corn, a Mexican federal judge placed a provisional injunction on all planting activities involving this type of corn in the country in September 2013, due to a collective lawsuit filed by a group of anti-GMO activists. As a result, the Mexican Government suspended the granting of environmental testing permits to developers of GE corn. Despite successful and extensive cooperation in the area of biotechnology between Mexico and the United States, Mexico has continued to stall issuing permits for

the commercial domestic cultivation of GE corn. Mexico has no restrictions on the importation of GE corn.

**Consumption**

The Post/New forecast of total corn consumption for MY 2015/16 is 33.9 MMT, an increase of approximately 1.2 percent over last year's estimate. The expected increase in total consumption reflects an increase in both feed and human consumption, although the increase in human consumption is very slight. Consequently, the increase in domestic corn consumption is expected to be driven mainly by the expansion in Mexico's livestock and poultry sectors as well as other food industries such cereals, snacks and starch.

In reference to feed consumption, the poultry sector continues to be the major user of feed grains in Mexico. The Mexican poultry sector is expected to continue to expand and modernize. According to the National Union of Poultry Farmers (UNA), the Mexican poultry industry, as a whole, will grow by 2.5 percent in 2015. The UNA also predicted that egg production in Mexico will grow by 2.0 percent during this year. Meanwhile, it's predicted chicken meat production will grow 2.5 percent, reaching 3.0 MMT. The Association noted that in 2014, the Mexican poultry industry grew by 2.8 percent compared to the level obtained in 2013. Last year the poultry sector produced 5.57 MMT tons of food products, of which 3 MMT was poultry meat and 2.57 MMT of eggs. In 2014, production of poultry meat increased 3 percent compared to the level achieved in 2013. Regarding the poultry egg industry sector, it grew 2.5 percent in 2014 compared to the previous year. Globally, Mexico is the seventh largest producer of chicken after United States, China, Brazil, EU, India and Russia. In the same context, Mexico ranks sixth in egg production, behind China, USA, India, Japan and Russia. Mexico is the number one consumer of eggs in the world.

Regarding human consumption, despite the fact that corn continues to be the most important staple crop in Mexico, with consumption of corn and tortillas on average accounting for 7 percent of Mexicans' family budget, Mexico has experienced a decline in human corn consumption over the last few years. According to private sources, the weakening demand for white corn comes from a decline in tortilla consumption which is direct response to price increases. Reportedly, from 2009 to 2013, tortilla prices in supermarkets and from other tortilla makers, increased 96 percent and 32 percent, respectively. This trend has subsequently resulted in a substitution effect where low-income groups are switching from tortillas to other foods, such as bread and crackers. However, for those groups where income is strengthening, such as the middle class, tortilla consumption also drops as they move to more upscale sources of caloric intakes such as pasta.

Despite these trends, private sources estimate that the use of corn flour for human consumption to make tortillas has still remained stable over the last few years. It is expected that corn flour use for human consumption could increase marginally in 2015, assuming relatively lower consumer purchasing power due to the uncertainty in the domestic economy, which could as noted above, revert the substitution effect in low-income groups from tortillas to bread and crackers. To further illustrate, recently Mexico's central bank (Bank of Mexico) reduced its growth forecast for the economy citing a "less favorable" environment due to the drop in oil prices and a potential cut in oil production. The Bank of Mexico estimated GDP growth between 2.5 and 3.5 percent in 2015, a reduction from its earlier forecast of between 3 and 4 percent.

**Trade**

The Post/New total corn import forecast for MY 2015/16 is expected to increase approximately 3 percent, driven by the increased demand from the livestock and starch sectors. In MY 2015/16 Mexico is forecast to export 500,000 MT, the same level as the previous year.

The Post/New corn import estimate for MY2014/15 has been revised downward from USDA/Official to 10.0 MMT due to higher total domestic production than previously estimated and based on private traders information and preliminary official data from SAGARPA and the General Customs Directorate of the Finance Secretariat (SHCP) covering the first four months of the marketing year.

Growth in the use of yellow corn in Mexico has been accelerating over the last two years as the entire domestic corn market has benefited from lower international corn prices, particularly there has been more feed use demand for yellow corn. Consequently, over the last two years, other grains such as sorghum and even wheat played a less active role in feed use. At the beginning of the last decade, feed corn use rose as the animal protein sector went through an important expansion, particularly in the livestock and poultry sectors. Feed corn use reached its highest level in MY 2008 as supplies were abundant and corn prices were lower than other grains. But as international prices began to rise, partly as a result of the boom in the U.S. ethanol industry and as the livestock cattle inventories shrank in Mexico, feed corn use declined. However, since 2012, international corn prices have again declined as a result of abundant international supplies. This has benefited Mexican importers, mainly the livestock and poultry sector. These combined factors will likely strengthen Mexico's demand for imported corn in MY 2015/16.

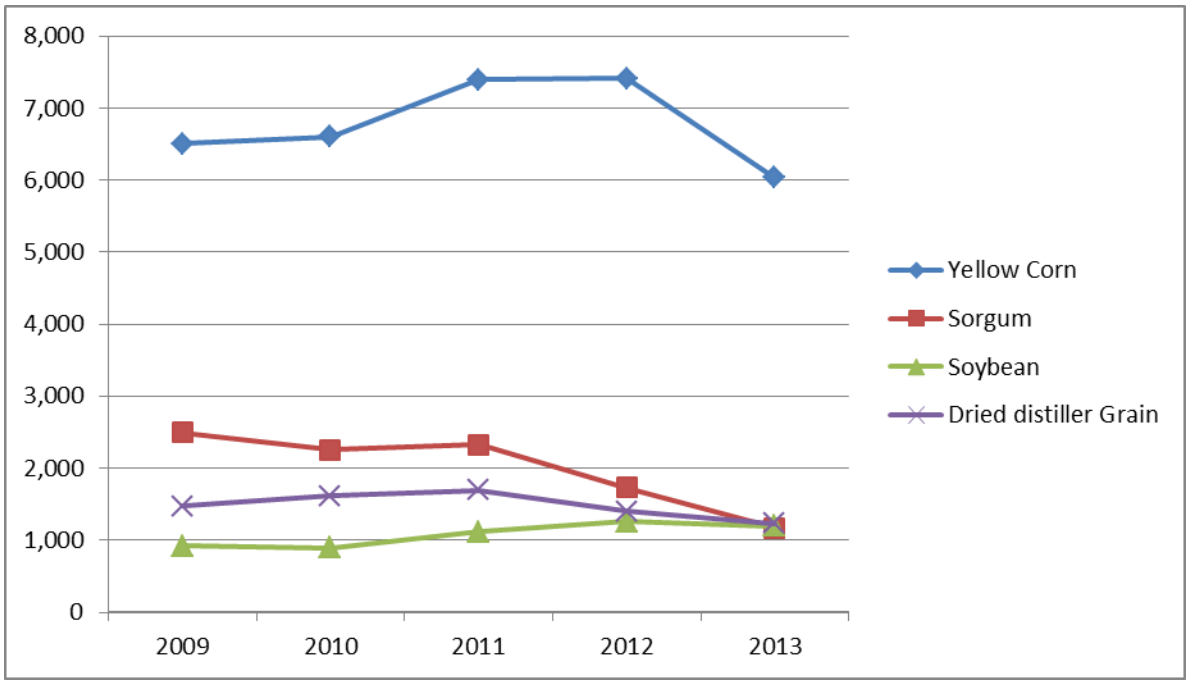
Traditionally, Mexico imports almost all of its corn from the U.S. due to an economical and logistical advantage over other exporting countries. This trend continues to bode well for future yellow corn imports from the United States.

According to animal feed industry sources, demand for Distiller's Dried Grains with Solubles (DDGS), a co-product of corn-based ethanol production that is used mainly as an animal feed protein supplement, has been decreasing over the last few years. These sources indicated that DDGS was regularly used as a substitute for oilseed meal in feed concentrate formulas. However, as international prices of soybean meal have declined, the Mexican feed industry has increased its use of soybean meal, resulting in a gradual decrease in DDGS imports. It is estimated that this trend will continue in 2015 (see charts below).

**Annual imports of main raw materials by the feed industry, 2009-2013***
**(000 Metric Tons)**

| | Yellow Corn | Sorghum | Soybean Meal | Dried distiller grain |
|---|---|---|---|---|
| **2009** | 6,500 | 2,497 | 920 | 1,470 |
| **2010** | 6,600 | 2,253 | 898 | 1,618 |
| **2011** | 7,389 | 2,324 | 1,114 | 1,692 |
| **2012** | 7,409 | 1,726 | 1,262 | 1,404 |
| **2013** | 6,031 | 1,167 | 1,194 | 1,228 |

**Source: Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutricion, A.C.**




Source: National Council of Feed Producers and Animal Nutrition (*Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición, A.C*)

| Mexico: Production of Feed Ingredients (000 Metric Tons) | | | | | |
|---|---|---|---|---|---|
| Calendar Year: | 2010 | 2011 | 2012 | 2013 | 2014/e |
| **Compound Feed Capacity** | 34,000 | 35.000 | 35,200 | 35,670 | 36,200 |
| **Total Compound Feed Produced** | 28,124 | 28,510 | 28,389 | 28,989 | 29,767 |
| **---- by integrated producers** | 17,691 | 17,992 | 17,526 | 18,049 | 18,498 |
| **---- by commercial producers** | 10,433 | 10,518 | 10,863 | 10,940 | 11,269 |
| **Marketing Year: (000 Metric Tons) Feed Production by type of animal** | **2010** | **2011** | **2012** | **2013** | **Estimated 2014** |
| **Poultry** | 14,400 | 14,613 | 14,187 | 14,484 | 14.815 |
| **Pork** | 4,300 | 4,305 | 4,428 | 4,563 | 4,751 |
| **Beef Cattle** | 3,000 | 3,157 | 3,222 | 3,363 | 3,421 |
| **Dairy Cattle** | 4,555 | 4,504 | 4,570 | 4,589 | 4,679 |

| | | | | | |
|---|---|---|---|---|---|
| **Aquaculture** | 214 | 207 | 197 | 124 | 178 |

Source: National Council of Feed Producers and Animal Nutrition
(*Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición, A.C*)

**Stocks**

Post/New MY 2015/2016 ending stock position is forecast to decrease approximately 28 percent to 1.9 MMT from the revised estimation for MY 2014/15 due to an increase in domestic consumption and slightly lower domestic production compared to a year earlier. The Post/New MY 2014/15 ending stock estimate has decreased slightly from the USDA/Official estimate, reflecting more recent available information.

According to animal feed industry sources, SAGARPA through to its paying agency "Agency of Marketing Services and Development of Agricultural Markets" (ASERCA), continues to conduct a detailed record of corn, sorghum and wheat stocks in Mexico. Industry sources state the rational for this detailed record is that they manage the Forward Contract Program (see Corn Policy Section below) and therefore must maintain an accurate database of grain and oilseed production and stock levels. However, this information continues to not be published. SAGARPA's Food and Fisheries Statistics Service (SIAP) releases information on grain and oilseed stocks on its website called "Availability-Consumption Balance (ACB). These ACB reports include information on production, imports, exports, and stocks of different commodities. However, this information has not been updated since 2013.

**Policy**

Forward Contract Program

SAGARPA continued to encourage forward contract purchases between farmers and buyers through the "Forward Contract Program", *Agricultura por Contrato*, (see 2008 GAIN Report MX8075 "Mexico Announces Support Program for Sinaloa White Corn"). In calendar year 2014, forward contract schemes were implemented for producers, traders and other end-users of corn, wheat, sorghum and soybeans. This program is a subsidy system based on market prices and tools that facilitates price stability, merchandising, and marketing for Mexican producers. The Forward Contract Program includes a complex mechanism to purchase input and call options for grains and soybean growers and the processing industry. Moreover, the program mechanism is based on world prices, thereby diminishing the risk of the subsidy system being defined as price distorting. Over the recent agricultural cycles this program has shown an increase in the volume of grains and feed registered, mainly in the fall/winter crop cycles.

According to ASERCA officials, in calendar year 2014 the Forward Contract Program granted supports for the marketing of approximately 20 MMT of different commodities, mainly corn (white and yellow), sorghum, wheat (for bread-making varieties and durum) and soybeans. Nearly 301,488 participants (farmers and companies), 232,924 growers and 68,564 buyers benefited from this program. ASERCA also stated that the Forward Contract Program has become the key instrument to promote more effective marketing of grain and oilseeds, fostering a business culture that includes mechanisms for risk management and grower's income protection.

PROAGRO

Starting in January 2014, the new PROAGRO Productive support program was initiated (before known as PROCAMPO). The new program grants direct supports to growers with farms in operation that are

appropriately registered in the PROAGRO directory (see 2013 GAIN Report MX3012 "PROCAMPO 2013 Subsidy Program Changes"). According to SAGARPA, previously under PROCAMPO guidelines, supports were allocated only under a condition of ownership - not on actual production. However, PROPAGRO Productive aims to promote agricultural production and promote a more productive, competitive and fair implementation for the countryside. Depending on the grower's level of farming operation as well as regional conditions, PROAGRO Productive supports can be channeled to training, technical assistance, mechanization, use of improved seeds or selected Creole seeds, plant nutrition, productive reconversion, crop insurance and price hedging, among others. The main change in the new PROAGRO Productive is that growers must now validate the destination of the support to acquire the concepts outlined above, whereas in the previous program (PROCAMPO) the supports were granted (in pesos per planted hectare) unconditionally..

Under PROAGRO Productive, a flat rate payment for corn, sorghum, wheat, and rice will be provided to growers for 2015 spring/summer and 2015/2016 fall/winter crop cycles. Also, SAGARPA indicated that the supports will be granted based on the size of the production unit as follows:

- Subsistence (up to five hectares of non-irrigated land and 0.2 hectares of irrigated land)
- Transition (greater than 5 hectares and up to 20 hectares non-irrigated land and greater than 0.2 hectares and up to five hectares of irrigated land), and
- Commercial (more than 20 hectares non-irrigated and more than 5 hectares irrigated).

The Subsistence growers will receive a support payment per hectare or portion of 1,300 pesos (86.67 U.S. dollars/ha). If they have three hectares of non-irrigated land and are located in the municipalities served by the "National Program Mexico Without Hunger" Program (See 2013 GAIN report MX3005, "Mexico Pushes Crusade Against Hunger Campaign" ), they will receive 1,500 pesos (100 U.S. dollars/ha). Growers who fall into the other two categories (Transition and Commercial) will receive 963 pesos per hectare (64.20 U.S. dollars/ha).
Also, responding to demands from various grower organizations about low commodity prices and the need for more assistance at the farm level, on November 28, 2014 SAGARPA announced in Mexico's Federal Register ("Diario Oficial") specific guidelines applicable to the 2014 crop year for two new support programs available in the states of Sinaloa and Tamaulipas for sorghum growers and buyers (as well as rice supports offered in several Mexican states). In addition, on November 27, 2014, ASERCA announced updated price levels associated with the Income Target Price Program (see 2014 GAIN Report MX4083 "Mexico Announces Additional Supports for Sorghum and Rice").

**Production, Supply and Demand Data Statistics:**

**Table 2: Mexico Corn Production, Supply and Demand for MY2013/14 to MY2015/16**

| Corn | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Oct 2013 | | Oct 2014 | | Oct 2015 | |
| Mexico | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| **Area Harvested** | 7,052 | 7,052 | 7,080 | 7,150 | 0 | 7,000 |
| **Beginning Stocks** | 1,061 | 1061 | 2,694 | 2,694 | 0 | 2,644 |
| **Production** | 22,880 | 22,880 | 23,200 | 24,000 | 0 | 23,400 |
| **MY Imports** | 10,954 | 10,954 | 10,900 | 10,000 | 0 | 10,300 |
| **TY Imports** | 10,954 | 10,954 | 10,900 | 10,000 | 0 | 10,300 |
| **TY Imp. from U.S.** | 10,918 | 10,918 | 0 | 9,900 | 0 | 10,200 |
| **Total Supply** | 34,895 | 33,834 | 36,794 | 36,694 | 0 | 36,344 |
| **MY Exports** | 501 | 501 | 500 | 500 | 0 | 500 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **TY Exports** | 501 | 501 | 500 | 500 | 0 | 500 |
| **Feed and Residual** | 15,200 | 15,200 | 16,800 | 16,800 | 0 | 17,150 |
| **FSI Consumption** | 16,500 | 16,500 | 16,750 | 16,750 | 0 | 16,800 |
| **Total Consumption** | 31,700 | 31,700 | 33,550 | 33,550 | 0 | 33,950 |
| **Ending Stocks** | 2,694 | 2,694 | 2,744 | 2,644 | 0 | 1,894 |
| **Total Distribution** | 34,895 | 34,895 | 36,794 | 36,694 | 0 | 36,344 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

## Sorghum

### Production

The Post/New total sorghum estimate for MY 2015/16 (October-September) is forecast at 7.7 MMT, 5.5 percent higher than previous year's revised estimate. This increase is due to an expansion in planted area in Mexico's sorghum producing regions and the expected slight growth in feed use demand from the poultry sector. According to private analysts and official sources, higher sorghum prices likely will encourage Mexican growers to increase planted area next MY 2015/16. Moreover, they noted that sorghum needs less water to grow than corn, and in general, seed costs are cheaper.

Sorghum production in Mexico is spread throughout the country. The largest sorghum producing states in 2015 are Tamaulipas, Guanajuato, Michoacán and Sinaloa. The states of Guanajuato, Michoacán, and Jalisco in West Central Mexico make up the "Bajio" region, where the bulk of the fall harvest is produced. For MY 2014/15, official sources estimate that the "Bajio" region will account for approximately 36 percent of total production, while Tamaulipas should produce 43 percent of the total. As of January 30, 2015 SAGARPA data estimated sorghum production reached 3.75 MMT in 2014 spring/summer crop cycle, which is 3 percent lower than the same crop cycle of 2013. The 2014 spring/summer crop cycle will account for approximately 51 percent of total sorghum production whereas the remainder of the crop will come from the 2014/15 fall/winter cycle.

SAGARPA continues to encourage sorghum forward contract purchases between farmers and feed millers through the Forward Contract Program for 2014/15 fall/winter in the state of Tamaulipas (see Corn policy section). Private sources state that approximately 75 percent of the expected harvest has been forward contracted in Tamaulipas through this program as of February 26, 2015. The harvest season is expected to start the last week May and finish around the end of June. Overall crop conditions are reportedly very good in Tamaulipas due to the favorable weather conditions and sufficient soil moisture. Therefore, a high quality crop is expected. The expectation is that the state of Tamaulipas could produce approximately 2.6 MMT during the 2014/15 fall/winter crop cycle.

### Consumption

The forecast for sorghum consumption in MY 2015/16 is expected to increase slightly to 7.6 MMT. Traders and buyers indicate that as result of higher sorghum prices, poultry and hog producers may decide to use more corn from domestic production and yellow corn imported from the U.S., while sorghum use should stay mostly stable. These sources pointed out that it is expected corn prices will continue to be affordable in MY2015/16 and consequently the use of sorghum in feed could increase - but only marginally -and mainly by the poultry sector during the harvest season when feed prices traditionally are more affordable for producers. The poultry industry continues to be the largest consumer of sorghum in Mexico and uses the crop primarily in the form of mixtures and feed concentrates.

## Trade

Total sorghum imports for MY 2015/16 is forecast to remain unchanged at 100,000 MT due to the bearish demand from feed millers and poultry and hog producers. Industry sources stated that demand for imported sorghum is likely to remain mostly steady provided sorghum prices continue to be higher priced relative to corn. These sources expect stable sorghum feed use and relatively affordable corn prices, which should encourage expansion in the poultry and hog sectors.

Traditionally, sorghum, with duty-free access to the Mexican market, has rivaled with corn as the leading feed grain imported by Mexico. However, in the last few years, due to more affordable international corn prices, Mexican livestock producers have mainly preferred imported yellow corn over sorghum. Moreover, Mexico's corn imports (mainly from the U.S.) have fluctuated greatly since 2008, without exhibiting a clear upward or downward trend, while Mexico's sorghum imports have been on the decline for more than a decade.

There are many factors behind these developments including; periods of drought that adversely affected crop and livestock production in multiple regions of Mexico over the past 5 years (see 2012 GAIN Report MX2018 "Prolonged Drought Devastates Grain and Feed Sector"); the use of large quantities of U.S. grown corn as an ethanol feedstock and the consequent expansion of Mexico's DDGS imports, and a partial shift by Mexican livestock producers from sorghum feed use to corn, especially since the initiation of duty-free U.S. corn exports to Mexico as part of the North America Free Trade Agreement (NAFTA) in 2008. Another factor has been a bullish 2014 international sorghum market, motivated by the stronger China demand. Therefore, sources stated that sorghum, corn and eventually wheat will all continue competing with each other, in some degree, to meet Mexican feed demand, and ultimately all will depend on the market price situation.

## Stocks

Post/New ending stocks for MY 2015/16 are forecast to increase to 743,000 MT due to the expected increase in domestic production. Meanwhile, ending stocks estimate for MY 2014/15 remains unchanged.

## Production, Supply and Demand Data Statistics:

**Table 3: Mexico Sorghum Production, Supply and Demand for MY2013/14 to MY2015/16**

| Sorghum | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Oct 2013 | | Oct 2014 | | Oct 2015 | |
| Mexico | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| **Area Harvested** | 2,073 | 2,073 | 1,800 | 1,800 | 0 | 1,900 |
| **Beginning Stocks** | 281 | 281 | 643 | 643 | 0 | 543 |
| **Production** | 8,500 | 8,500 | 7,300 | 7,300 | 0 | 7,700 |
| **MY Imports** | 162 | 162 | 100 | 100 | 0 | 100 |
| **TY Imports** | 162 | 162 | 100 | 100 | 0 | 100 |
| **TY Imp. from U.S.** | 162 | 162 | 0 | 100 | 0 | 100 |
| **Total Supply** | 8,943 | 8,662 | 8,043 | 8,043 | 0 | 8,343 |
| **MY Exports** | 0 | 0 | 0 | 0 | 0 | 0 |
| **TY Exports** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Feed and Residual** | 8,200 | 8,200 | 7,400 | 7,400 | 0 | 7,500 |
| **FSI Consumption** | 100 | 100 | 100 | 100 | 0 | 100 |
| **Total Consumption** | 8,300 | 8,300 | 7,500 | 7,500 | 0 | 7,600 |
| **Ending Stocks** | 643 | 643 | 543 | 543 | 0 | 743 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total Distribution** | 8,943 | 8,943 | 8,043 | 8,043 | 0 | 8,343 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

## Rice

### Production

The MY 2015/16 (October to September) rice production is forecast at 240,000 MT, with harvested area estimated at 41,000 ha. This year's rough rice production level converts to 165,000 MT of milled rice. The Post/New total rice production estimate for MY 2014/15 has been revised slightly upward from USDA/Official estimates to 230,000 MT (rough production) reflecting the most recent data from SAGARPA. The increase in rough rice production is equivalent to 158,000 MT of milled rice. According to official and private industry sources, rice output increased due to higher planted area-than-previously estimated as well as better yields, due to favorable weather conditions. For the 2014 spring/summer crop cycle, for example, yields are expected to reach 5.477 MT/ha, which is just slightly higher than yields obtained for the same crop cycle last year (5.394 MT/ha).
On January 26, 2015, during the celebration of "National Rice Day", Mexico's Agriculture Secretary, Enrique Martinez, and members of the rice industry issued several statements and announced some measures to support rice production during this current administration (which will end in 2018). Highlights include:

- Secretary Martinez stating that the Mexican Government, through SAGARPA and the Secretariat Economy (SE), has designed programs, incentives and funding schemes suitable to boost rice productivity and the restitution of tariffs on imported rice to strengthen competitiveness of domestic production (see 2015 GAIN Report MX5001 "Grain and Feed January Update Mexico").
- Modification on import tariffs from all countries that Mexico does not have free trade agreements is up 20 percent, which should stimulate domestic rice production in the states such as Nayarit, Colima, Michoacán, Veracruz, Morelos and Jalisco.
- Reinstated import duties additionally will allow a gradual reduction in rice imports, considered an important input in the consumer basic basket (fourth, after corn, wheat and beans).
- Secretary Martinez presented two new varieties of long grain rice seeds. These varieties are reportedly of higher quality and durability. The Secretary indicated that it is expected these varieties can be an important tool to fulfill the commitment to double rice production over the next four years.
- The two long-grain varieties were recently released by the National Institute of Forestry, Agriculture and Livestock (INIFAP) –a decentralized agency of SAGARPA-, and it is estimated that these varieties can obtain yields between 8 to 10 metric tons per hectare in the field.
- Announcement of construction of main and secondary canals for irrigation and drainage in rice arable areas of Campeche, Veracruz, Tabasco and Nayarit, covering 40 hectares.
- Announcement of electrification of irrigation systems for new rice areas in Campeche and Tabasco.

- New program of specialized technical assistance, training and technology transfer to rice growers.
- Based on these commitments established between rice producers, millers and the Mexican Government, rice production is expected to increase by approximately12 percent in 2015, with the goal of achieving 360,000 MT in 2018.

Meanwhile, the presidents of the National Committee of the Rice System Product; the Mexican Rice Council, and the National Council of Rice Producers of Mexico, expressed their appreciation to the Mexican Government for the actions taken to detonate more domestic rice productivity and revive the domestic rice market.

Moreover, the members of the rice millers industry announced their commitment to contract with rice farmers an agreement for price hedging, in accordance with the terms and conditions of international prices. Also, the industrial members pledged to first buy all domestic rice production and then turn to imports, in order to supply the domestic market, which currently exceed 1.0 MMT.

Lastly, the President of the National Committee of the Rice System Product announced that they are petitioning SAGARPA, asking for set support per metric ton for rice growers, which would decrease yearly until 2018. Reportedly, in 2015 the support requested would be 500 pesos/ MT (U.S. 33.34 dollar/MT), 400 pesos in 2016 (U.S. 26.67 dollars/MT); a year after 350 pesos/MT (U.S. 23.34 dollars/MT) and 300 pesos/MT in 2018 (U.S. 20 dollars/MT). It is unclear if SAGARPA will grant these support requests.

**Consumption**

The Post/New MY 2015/16 rice consumption forecast is 910,000 MT, a 2.2 percent increase from the previous marketing year. Affordable prices, due to expected higher domestic production and population growth, are the two main factors driving consumption of rice in MY 2015/16. Private analysts noted that although Mexico's per capita rice consumption is quite low (around 7.3 kilograms) compared with other countries in Latin America, it has continued to grow at a slightly higher rate than the population rate growth (1.1 percent) and thus the potential to increase further. According to industry sources, Mexican consumers increasingly demand higher rice quality although the market is largely price driven.

**Trade**

The Post/New import forecast for MY 2015/16 is estimated to increase only 10,000 MT, to 785,000 MT because of the expected increase of domestic production. As already mentioned, on December 2014 the SE published in the Diario Oficial (Mexico's Federal Register) a decree that modifies the Tariff of the General Import and Export Tax Law for imported rice. The decree imposes a 9 percent tariff on imported paddy rice and a 20 percent tariff on husked, long grain and other imported rice. The United States is exempt from the announced tariffs because of NAFTA (See 2014 GAIN Report MX4085 "Mexico Announce Rice Import Tariffs"). This measure was a result of intense lobbying from the Mexican Rice Council with SAGARPA and SE in an effort to protect Mexican rice growers and milling industries, from what was considered undervalue, low quality imported rice that was detrimental to their businesses. At the same time, trade sources estimated that this measure could allow for more U.S. rice to be exported to Mexico.

It should be noted that the U.S. rice cooperators have continued with aggressive trade servicing and promotional activities in Mexico. The cooperators have demonstrated that they are committed to ensuring that the United States retains a dominant share of Mexico's rice import market and will continue to highlight that the U.S. is a consistent, reliable, and timely supplier of high-quality rice, both in paddy and milled forms.

**Stocks**

The forecast for ending stocks in MY 2015/16 is 228,000 MT, an increase of approximately 19.4 percent over the previous marketing year due to higher domestic production and because the trend of higher imports continues. On the back of a 10,000 MT forecasted hike in Mexico's imports as well as 10,000 MT on domestic production, the stocks-to-use ratio for MY2015/16 is set at 25.1 percent, up from 21.5 percent recorded in previous marketing year.

**Policy**

Please see the corn policy section for information.

**Production, Supply and Demand Data Statistics:**

**Table 4: Mexico Rice Production, Supply and Demand for MY2013/14 to MY2015/16**

| Rice, Milled | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Oct 2013 | | Oct 2014 | | Oct 2015 | |
| Mexico | USDA Official | New post | USDA Official | New post | USDA Official | New post |
| Area Harvested | 35 | 35 | 39 | 40 | 0 | 41 |
| Beginning Stocks | 189 | 189 | 151 | 151 | 0 | 191 |
| Milled Production | 131 | 131 | 155 | 158 | 0 | 165 |
| Rough Production | 191 | 191 | 226 | 230 | 0 | 240 |
| Milling Rate (.9999) | 6,870 | 6,870 | 6,870 | 6,870 | 0 | 6,870 |
| MY Imports | 693 | 693 | 775 | 775 | 0 | 785 |
| TY Imports | 700 | 700 | 775 | 775 | 0 | 785 |
| TY Imp. from U.S. | 0 | 514 | 0 | 590 | 0 | 690 |
| Total Supply | 1,013 | 1013 | 1,081 | 1,084 | 0 | 1,141 |
| MY Exports | 2 | 2 | 3 | 3 | 0 | 3 |
| TY Exports | 2 | 2 | 5 | 5 | 0 | 5 |
| Consumption and Residual | 860 | 860 | 890 | 890 | 0 | 910 |
| Ending Stocks | 151 | 151 | 188 | 191 | 0 | 228 |
| Total Distribution | 1,013 | 1,013 | 1,081 | 1,084 | 0 | 1,141 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

**For More Information:**

FAS/Mexico Web Site: We are available at www.mexico-usda.com.mx or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

Other Relevant Reports Submitted by FAS/Mexico

| Report Number | Title of Report | Date Submitted |
|---|---|---|
| MX5001 | Grain and Feed January Update Mexico | 01/15/2015 |
| MX4073 | Grain and Feed October Update Mexico | 10/17/2014 |
| MX4059 | Grain and Feed July Update | 07/31/2014 |

| | | |
|---|---|---|
| MX4020 | 2014 Grain and Feed Annual | 03/14/2014 |
| MX4009 | Low Prices Help Drive Down Mexico Corn Production, While Sorghum, Rice and Dry Bean Production Up | 01/31/2014 |
| MX3078 | Extreme Weather conditions Bring Mixed Result to Mexico's Grain Production | 10/31/2013 |
| MX3024 | Favorable Growing Conditions for Higher Corn, Wheat, and Dry Beans Forecast, Sorghum Mixed, Rice Down | 3/15/2013 |