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Mexico

Grain and Feed Annual

Prolonged Drought Devastates Grain and Feed Sector

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Report Highlights:
Mexico is being battered by its worst drought in seven decades, which has devastated agricultural production in most of the country. According to the National Water Commission, the drought is expected to continue until the rainy season begins in summer of 2012. The prolonged drought has affected 70 percent of the country and decimated agriculture in Mexican states of Coahuila, Aguascalientes, San Luis Potosi, Sonora, Tamaulipas, Zacatecas, and Durango (among others). The financial losses of the drought have surpassed 16 billion pesos (1.3 billion USD) including losses of 9 billion pesos (710 million USD) for corn and 6 billion pesos (280 million USD) for beans.

Commodities:

Corn

Wheat

Wheat, Durum

Rice, Milled

Production:

Corn

Production

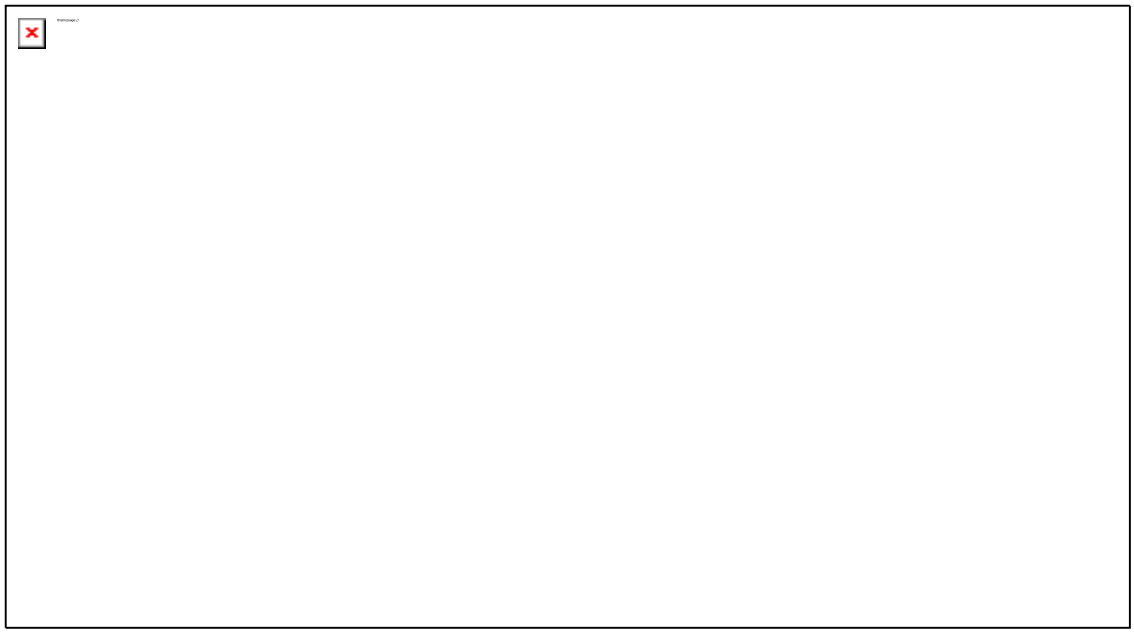
The Post/New MY 2012/13 (October to September) corn production forecast is 21 million metric tons (MMT) with harvested area, assuming normal weather conditions, estimated at 7 million hectares (ha). Corn producers had a very poor MY 2011/12 but we expect a rebound both in size of harvested area as well as production next year assuming normal weather conditions (relatively higher moisture) at next summer's corn planting period. It should be noted that Mexico is being battered by its worst drought in seven decades, which has devastated agricultural production in most of the country. According to the National Water Commission (CONAGUA), the drought is expected to continue until the rainy season begins in the summer of 2012. The prolonged drought has affected 70 percent of the country and devastated agriculture in the Coahuila, Aguascalientes, San Luis Potosi, Sonora, Tamaulipas and Zacatecas (among others).

For MY 2011/12 the Post/New total corn production estimate has been revised downward from USDA/Official estimates to 18.6 MMT, due to more complete data from the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). Corn output was reduced due to smaller than expected planted area and adverse weather conditions. The impact of severe drought conditions during the main crop phases of the corn crop provoked an irreversible yield loss in the 2011 Spring/Summer crop cycle that was worse than previously estimated - particularly in important producing areas in Puebla, state of Mexico, Guanajuato and some regions of Jalisco. Consequently, SAGARPA contacts estimated a corn output of 13.5 MMT in 2011 Spring/Summer crop cycle, which is nearly 20 percent lower than in 2010.

According to SAGARPA figures, as of January 30, 2012, the progress of corn production for the 2011 Spring/Summer crop cycle was 12.0 MMT, which is 17.6 percent lower than the similar crop cycle a year earlier. This drop in production level is mainly attributed to the prolonged drought (see 2012 GAIN report MX2005 "*Intense Drought Lowers Corn, Sorghum and Wheat Forecasts*"). The corn planted area reported for this crop cycle was 6.3 million hectares (ha) - down 398,700 ha compared to the previous year. Similarly, for the 2011 Spring/Summer crop cycle, the harvest advance, as January 30, 2012, was approximately 16.1 percent lower compared with the same crop cycle a year earlier. The main-producing states contributing to this decline were Mexico with 36.2 percent less harvested area,

Guanajuato with 27 percent, Puebla with 22 percent, and Jalisco with 8.8 percent. Moreover, the total planted area damaged by the drought in 2011 totaled 1.2 million ha, which is 87.4 percent higher compared with 2010.

The reason for such a severe drop in harvested area is attributed to the crop being planted several weeks later than the traditional planting dates because of lack of rainfall. This has, therefore, caused delays to the harvest. Furthermore, a number of farmers have also forgone harvesting land because the severe weather of the past year drastically reduced yields. Below is a graph illustrating the difference in the 2010 vs. 2011 spring/summer harvested area in the main producing states, with data as of January 30, 2012:



In Jalisco, for example, preliminary official estimates were that the 2011 Spring/Summer corn crop (2 MMT) declined by roughly 23.5 percent compared to the same crop a year earlier. This decline is attributable to the 84,233 ha of corn production land damaged by the prolonged drought. The total damaged area for the 2010 spring/summer crop in Jalisco was only 37,844 ha. There was very scarce rainfall during the June 20 - July 20 planting season. Moreover, there was very little rainfall in September 2011, the month when corn most needs the moisture. According to the National Water Commission (CONAGUA), September 2011 was ranked as the fourth driest September in 70 years at national level, with only 99.7 mm of accumulated rainfall - 30 percent below the average of 143.8 mm. Approximately 94 percent of Jalisco's crop area is non-irrigated. Jalisco's corn production is of special interest as this state accounts for approximately 20 percent of Mexico's total Spring/Summer white corn production.

Moreover, in the 2011/12 Fall/Winter crop cycle, Sinaloa farmers planted approximately 140,000 ha less than the same crop cycle a year ago due to nearly dry water reservoirs used for irrigation purposes. Based on CONAGUA figures, as of February 14, 2012, water levels in Sinaloa's reservoirs were at

20.5 percent capacity as compared to 59.6 percent in 2010. Two main causes provoking such low water reservoir levels include:

- The "La Niña" phenomenon present in the Pacific Ocean from mid 2010 to the present, which has adversely affected the development of tropical hurricanes and connective cloudiness, reducing evaporation from the ocean and, thus, also decreasing rainfall precipitation. In 2010, total rainfall in Sinaloa was 596.3 mm, 22.5 percent below the normal average, and in 2011 registered a total rainfall of 595.4 mm, a 22.7 percent below the normal average.
- Replanting took place after a major freeze in February 2011, which used a volume of 5,500 m3 of water from reservoirs (see 2011 GAIN report MX1017 " *February Freeze Impacts Marketing Year 2010/11 Crop Production Forecast*")

With this reduction in planted area, corn production is expected to reach between 2.7 to 2.9 MMT in Sinaloa, instead of 4 to 4.5 MMT that Sinaloa usually obtains. However, weather conditions in Sinaloa have been adequate so good yields are expected in the planted area. It should be noted that Sinaloa's corn production accounts for approximately 71 percent of Mexico's Fall/Winter total white corn production. As a result of the decline in area planted in Sinaloa, Mexico's Agriculture Secretary, Francisco Mayorga, recently pointed out that Tamaulipas will plant 45,000 ha of corn, while an additional 144,000 ha will be planted in Veracruz, Campeche, Oaxaca and Chiapas. Many market analysts, however, have expressed doubts that these states can effectively compensate for the expected reduction in white corn production due to big differences in yields and resources endowments, managerial structures, and technical skills between Sinaloa's corn growers and the farmers of these states.

Also, Secretary Mayorga stated that the financial losses of the drought have surpassed 16 billion pesos (U.S $1.3 billion) including losses of 9 billion pesos (U.S. $710 million) for corn, 6 billion pesos (U.S. $280 million) for beans and 420 million pesos (U.S. $33 million) for cattle. However, he pointed out that the domestic white corn supply will reach 18 MMT, "guaranteeing" more than enough to meet demand for human consumption. It should be noted that contrary to other major corn producers, Mexico produces large quantities of white corn for human consumption. White corn accounts for approximately 90 percent of total corn production with yellow totaling around 8 percent. Other types of corn account for the remaining 2 percent including blue corn and other creoles (landraces), sweet corn and popcorn.

Production and harvested area estimated for MY 2010/11 have been adjusted slightly downward from USDA/Official estimates based on SAGARPA final information.

Corn is produced in all regions of Mexico in a wide range of agro-climatically diverse conditions by growers who differ in resource endowments, managerial structures, and technical skills. Approximately 70 percent of total production comes from eight Mexican states: Sinaloa, Jalisco, Mexico, Chiapas, Michoacan, Veracruz, Guerrero, and Chihuahua. Moreover, corn production in Mexico is divided into two categories: commercial and traditional. Commercial production is practiced by large- and medium-sized growers that produce white and/or yellow corn, while traditional production refers to small-scale and subsistence farmers who specialize mostly in white corn production.

Commercial producers generally obtain higher yields and use more inputs and technology than traditional farmers. Yields continue to vary significantly throughout the country, depending, in large part, on the level of technology used. The average yield for the MY 2012/13 corn crop in Mexico is forecast at 3 MT/ha. However, Sonora and Sinaloa traditionally have yields reaching 10 MMT/ha - similar to those obtained in the United States for both white and yellow corn. Due to the drought problems previously mentioned, these states are expected to register significantly lower yields in MY 2011/12.

Transportation, storage, and marketing continue to be sources of unnecessarily high costs and bottlenecks in the Mexican corn sector. Long distances from fields to consumption centers, reliance on expensive trucking, inadequate road infrastructure, and the lack of direct railroad links at key transport hubs (especially at ports and markets) have thwarted efforts to create an integrated market from farmers to consumers. Furthermore, Mexico has a substandard storage network that lacks effective instruments for financing inventories in warehouses. Similarly, the rising cost of fuel and other inputs are other factors that have affected corn prices. The competitiveness of Mexican growers is hampered relative to U.S. imports, with nearly all imports coming via rail and/or ship, since most internal movement of Mexican production is by higher-cost trucking.

Although the Mexican government continues, in theory, to grant environmental testing permits to developers of genetically-engineered (GE) corn and other crops, as of February 2011, Mexico has only approved two pilot GE corn varieties (see 2012 GAIN Report MX2001 " *GM Corn Pilot Tests Approved*"). However, SAGARPA is showing more interest in expediting GE corn pilot testing in the face of a severe deficit in corn production provoked by the prolonged drought. Official sources have stated that although the Mexican government is still cautiously evaluating and approving requests, most market analysts expect that permission for GE corn planted for commercial purposes will be granted sometime in 2012.

Non-GE hybrid corn, which has been shown to increase yields and is used for most production in Sinaloa, has not been widely adopted in most other areas due to a combination of legal and technical issues.

Consumption

The Post/New forecast of total corn consumption for MY 2012/13 is 29.85 MMT, an increase of 2.2 percent compared to previous year's revised estimate. This increase is expected to be driven by population growth (1.1 percent) and an expansion in the Mexican livestock and poultry sectors.

Mexico is the fifth largest consumer of corn in the world, after the United States, China, EU 27, and Brazil. Although corn in Mexico is mainly produced during Spring-Summer, demand is constant throughout the year. Corn continues to be the most important staple crop in Mexico, with consumption of corn and tortillas accounting for more of 40 percent of average caloric intake. Although per capita tortilla consumption dropped 25 percent in the last 15 years (from 120 kilograms to 90 kilograms), it is still the most important component of the Mexican diet.

Post's total corn consumption estimate for MY 2011/12 has been revised downward from USDA/Official data based on new information from official and private sources. Feed consumption is expected to shift from corn to dried distilled grain with solubles (DDGS) and even wheat, due to lower-

than-previously estimated domestic corn production. Similarly, Post's FSI consumption estimate for MY 2011/12 has been revised slightly downward from the USDA/Official estimate based, once again, on official and private-sector data. According to the Market Integration National Information System (SNIM) of the Secretariat of Economy (SE), as of February 17, 2012, the average price of tortillas reached 12.11 pesos per kilogram (U.S. $0.93/kg), up 22.3 percent from 9.90 pesos/kg (U.S. $0.72/kg) in early 2011. Some industry contacts have advised that tortilla prices are expected to increase even higher later in 2012 resulting from low domestic production of corn and increasing costs of some inputs (such as natural gas for cooking). The Post/New total consumption estimate for MY 2010/11 has been remained unchanged from USDA/Official estimates.

Policy

The GOM continues 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*). The program is designed for producers, traders and consumers of corn, wheat, sorghum, soybean, safflower, cotton, coffee, orange juice and livestock products (beef and pork), and recently added cocoa and coverage for agricultural inputs such as fertilizers, natural gas (and derivatives), and diesel.

According to ASERCA, SAGARPA provided support for the production of 13.77 MMT of different commodities with a budget of 11.3 billion pesos (U.S. $869.2 million) in calendar year 2011, an increase of 47.2 percent in the budget compared with 2010. The breakdown of the commodities covered by the "Forward Contract Program" in 2011 is as follows:

Products Covered under the Forward Contract Program in 2011 (Percent)	
Corn	50.11
Wheat	24.30
Sorghum	20.26
Cotton	2.07
Livestock Products	0.76
Other	2.46

Source: ASERCA/SAGARPA

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 grain and oilseed growers and the processing industry. Official sources report that supports under this program are defined as non-product specific as they are available to producers. Moreover, the mechanism is based on world prices, thereby diminishing the risk of the system being defined as price distorting.

On February 14, 2012, Mexico's Secretariat of Economy (SE) announced the 2012 operational guidelines for how support will be provided to the corn flour (*nixtamal*) milling industry through the

PROMASA program. The GOM will support the manufacture of up to 500,000 MT of *nixtamal* dough. The announcement is a routine update of the existing PROMASA operational guidelines (see 2011 GAIN MX1036 report *Mexico Updates Support Program for Corn-Dough – Nixtamal-*).

According to this announcement, PROMASA is now part of PROIND, which is the GOM strategy to promote the competitiveness of various industrial sectors. Moreover, the announcement states that to support the industries that could be affected by the macroeconomic environment and climate change, it is necessary to implement programs to promote industry viability. Specifically, SE referenced the following factors in its decision to implement the 2012 PROMASA program.

- The Mexican government is undertaking various measures to ensure an adequate tortilla supply for the Mexican population. Therefore, it is necessary to continue implementing measures to maintain this trend.
- The *nixtamal* milling industry has a significant impact on employment generation and in the production of a vital commodity for Mexican families.
- PROMASA is part of a strategy designed to boost the competitiveness of the industrial corn/*nixtamal* sector this fiscal year.

The support per kilogram of *nixtamal* dough for tortillas will be determined as follows:

- Support of 1 pesos per kilogram of *nixtamal* dough, to small and medium enterprises
- Support of 0.80 pesos per kilogram of *nixtamal* dough, to low-income consumers (REPECO).

PROMASA grants these supports und*erstandin*g that every kilogram of corn produces 1.8 kilograms of *nixtamal* dough and requires 0.0035 liters of gas and 0.040 kilowatt hours of electricity.

Under PROIND, the relevant category and maximum amount of a support request are:

Category	Subcategory	Maximum Amount of Support	Consideration
PRODUCTION	Manufacture of materials for the production of consumer goods	4,000,000 pesos	For Application Support

Current Exchange Rate: U.S. $1.00 = 13.00 pesos

Under the Mexican domestic agricultural support program, PROCAMPO, a flat rate payment for corn, sorghum, wheat, rice, and dry beans was provided to farmers for the 2010 Spring/Summer crop cycle. On April 8, 2009, SAGARPA announced in the Mexican Federal Register (*Diario Oficial*) modifications to the operational rules of PROCAMPO for the 2009 through 2012 Spring/Summer planting seasons. The support payments are between 963 to 1,300 pesos per hectare depending on the number of hectares each producer has registered in the program. Additionally, in 2009, SAGARPA reduced the maximum payment limit under the program to 100,000 pesos (roughly $7,692) regardless of total area under production (See 2009 GAIN Report MX9020 *Mexico Announces Changes to Support Program*).

Trade

The Post/New import estimate for MY 2011/12 has been increased to 10.7 MMT due to lower-than-previously estimated domestic production, Post/New export figures for MY 2011/12 have been decreased based on industry contacts' estimates. These contacts pointed out that because of the severe adverse impact of drought in several states of the country and the low reservoir water levels in Sinaloa, Mexico's corn exports, if any, should be minimal in MY 2011/12 and MY 2012/13.

The Post/New total corn import forecast for MY 2012/13 is expected to decrease to 9.5 MMT – down approximately 11 percent compared to the revised MY 2010/11 estimate due to an increase in domestic production.

Stocks

Post/New MY 2012/13 ending stocks are forecast to increase to 2.0 MMT due, primarily, to an increase in domestic production. The Post/New MY 2010/11 stock estimate has been decreased from USDA/Official estimates to reflect more recent information. Also, the MY 2011/12 stock estimate has been decreased due to lower -than-previously estimated domestic production.

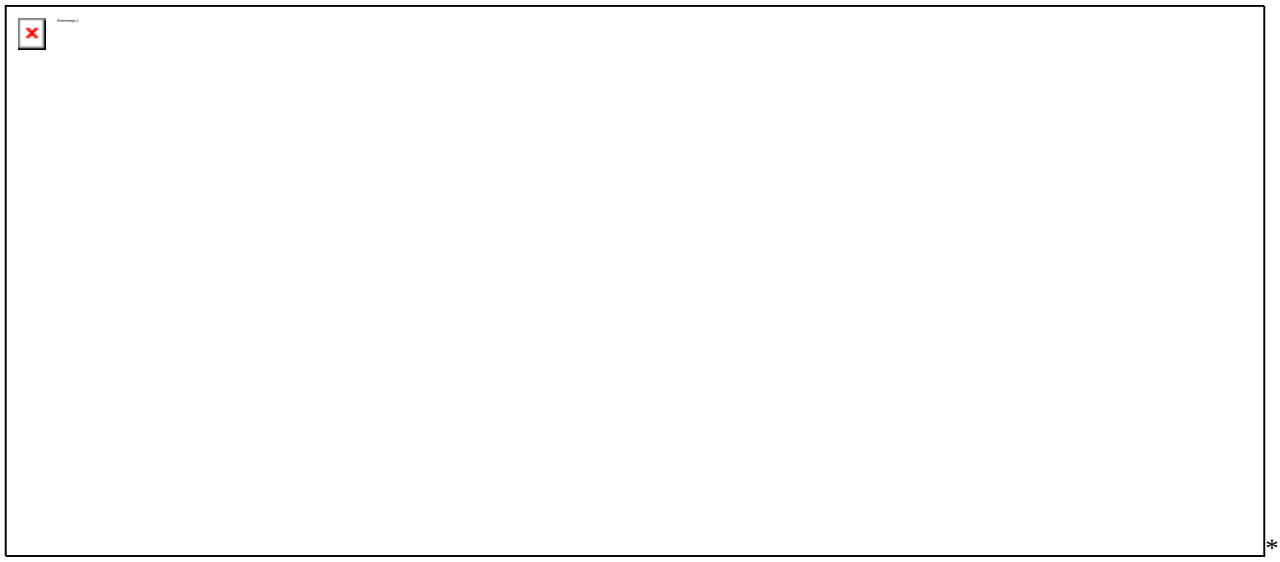
Since March 2010, SAGARPA's Food and Fisheries Statistics Service (SIAP) has ceased releasing information on grain and oilseed stocks that were regularly published on its website and called "Availability-Consumption Balance (ACB)." These ACB reports included information on production, imports, exports, and stocks of different commodities. According to SAGARPA, the official reason it stopped publishing this information was due to the need to review the methodology for collecting this information from various industries and the need to collect data with greater accuracy.

Production, Supply and Demand Data Statistics

Table 1. Mexico: Corn Production, Supply and Demand for MY 2010/11 to 2011/13

Corn Mexico	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	7,000	6,995	6,650	5,970		7,000
Beginning Stocks	1,389	1,389	1,689	1,309		1,399
Production	21,130	21,006	20,500	18,600		21,000
MY Imports	8,257	8,001	9,800	10,700		9,500
TY Imports	8,257	8,001	9,800	10,700		9,500
TY Imp. from U.S.	7,526	7,389	0	9,800		8,800
Total Supply	30,776	30,396	31,989	30,609		31,899
MY Exports	87	87	100	10		20
TY Exports	87	87	100	10		20
Feed and Residual	13,200	13,200	14,100	13,200		13,650
FSI Consumption	15,800	15,800	16,200	16,000		16,200
Total Consumption	29,000	29,000	30,300	29,200		29,850
Ending Stocks	1,689	1,309	1,589	1,399		2,029
Total Distribution	30,776	30,396	31,989	30,609		31,899
1000 HA, 1000 MT, MT/HA						

Figure 2. Mexico: Weekly prices for White and Yellow Mexican Corn and U.S. Corn and U.S. Sorghum in pesos per MT, Weekly market prices in Mexico* vs. U.S. 2009-2012



*

Average **weekly market prices in consumption area.**

Note: Future prices correspond to the Dec 12 contract. Sources Reuters and GCMA

Table 2. Mexico: Annual Average Prices of White, Yellow Corn and Sorghum in Mexico, 2008-2012

	White			Yellow			Sorghum		
	Pesos/MT	Percent Change	Standard Deviation	Pesos/MT	Percent Change	Standard Deviation	Pesos/MT	Percent Change	Standard Deviation
2008	3079.8		257.6	2974.1		202.0	2850.5		267.5
2009	3049.3	-1.0	201.4	2748.3	-7.7	161.5	2560.4	-10.2	119.1
2010	2985.9	-2.1	201.5	2803.8	2.0	279.4	2635.9	2.9	218.7
2011	4606.4	54.3	480.0	4073.0	45.3	300.0	3858.3	46.4	331.8
2012	5144.6	11.7	45.4	4201.1	3.1	111.7	4130.5	7.1	41.6

Source: SFA with information of GCMA. Note: For 2012 was considered the accumulated to the date.
Current Exchange Rate: U.S. $1.00 = 13.00 pesos.

TABLE 3. Mexico: Annual Compound Feed Capacity, Production, and Demand by Livestock Sector, 2008-11.

Mexico: Production of Feed and Feed Ingredients (000 Metric Tons)

Calendar Year:	2008	2009	2010	2011/e

Compound Feed Capacity	34,000	34,000	34,000	35.000
Total Compound Feed Produced	26,600	27,000	27,300	28.100
---- by integrated producers	16,947	16,337	17,689	18,849
---- by commercial producers	10,053	10,163	10,411	10,910
Marketing Year: (000 Metric Tons) Feed Production by type of animal	**2008**	**2009**	**2010**	**Forecast 2011**
Poultry	13,728	14,039	14,400	14.600
Pork	4,230	4,235	4,300	4.650
Beef Cattle	2,750	2,900	3,000	3,400
Dairy Cattle	4,503	4,504	4,555	4,606
Aquaculture	240	250	190	255

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

WHEAT

Production

Total Mexican wheat production for MY 2012/13 (July to June) is forecast at 3.3 MMT, approximately 11 percent lower than the previous year's revised estimate. Reduced harvested area and adverse weather conditions in the key Fall/Winter wheat production areas of Sonora and Guanajuato are the main reasons for this reduction. Official and industry contacts have stated that wheat production could suffer this year due to weather-related issues which would lead to lower yields for farmers with inadequate and/or costly water sources. The extended drought that affected the 2011 Spring/Summer crop cycle has already damaged the 2011/12 Fall/Winter crop cycle as water reservoirs and dams are at less than 30 percent of capacity (see Corn Production section). According to market analysts, the main wheat areas affected by the drought were in the Mayo valley in southern Sonora. Approximately 45,000 ha were not planted in southern Sonora due the lack of water for irrigation. Normally, growers plant near 80,000 ha in the Mayo valley. Moreover, the drought is expected to negatively affect the yields in these areas by approximately 50 percent. The average yield expected in Sonora initially was 6.5 MT/ha. Other wheat-producing areas in Sonora (e.g., Hermosillo and Caborca) and Baja California (e.g., Mexicali) did not report any damage. In 2011, a larger portion of durum wheat plantings took place because of water shortage concerns and the fact that durum varieties tend to have a higher yield and are more resistant to diseases. In the Obregon region of Sonora, for example, near 70 percent of total plantings in 2010 was durum wheat (cristalino). This year, that number is closer to 90 percent. Regarding consumption, with more "cristalino" plantings, industry contacts expect higher demand for bread wheat from the United States. There will probably still be significant demand for feed wheat from the United States because of lower corn stocks.

Sources indicate, however, that it will be difficult to determine how badly the wheat crop was damaged by the drought until harvest. Sources report that Sonora wheat is often used for feed and, as such, any damage to quality will not have much impact on its final use.

The bread wheat-producing states of the central plateau (mainly Guanajuato) also report insufficient water availability and the reduction in planted area. Market analysts indicated that planting in the area, which was completed in December 2011, was down 45 percent due to the prolonged drought that left reservoirs nearly depleted. Irrigation accounts for 97 percent of total wheat production in the region.

Post's MY 2011/12 (July/June) wheat harvested area and production estimates have been revised downward from USDA/Official forecasts based on updated information from Mexican government contacts, which reflects lower-than-previously estimated planted area. SAGARPA informed that the 2011 Spring/Summer harvest in the "Bajio" region (encompassed by Guanajuato, Michoacan and Jalisco) was lower-than-previously expected due the extremely dry weather conditions. For example, as of January 30, 2012, the wheat area damaged by the dry weather in the "Bajio" region was approximately 15,325 ha - significantly higher than the 7,671 ha registered in the same crop cycle of 2010. In addition, SAGARPA contacts indicated the 2011 Spring/Summer crop was also adversely affected due to the major freeze of September 2011 - mainly in the state of Tlaxcala. They pointed out that the 2011 freeze damaged the wheat crop during the filling stage of the grain, which also negatively affected yields.

In Mexico, two wheat crops are grown annually. A Spring/Summer cycle produces about 5 percent and a Fall/Winter cycle producing approximately 95 percent, with the harvest taking place in May and June. The higher importance of the Fall/Winter cycle is due to the weather conditions prevailing at that time of year in the north and northwestern states, as constant high moisture and warm temperatures are basic conditions for proper crop development. Mexico produces two wheat varieties: durum (or crystalline) and milling wheat. Mexico imports more wheat than it exports. Typically, Mexico produces less bread varieties (i.e., hard red winter and hard red spring) and more durum. Mexican producers find that durum wheat is easier to grow and that they receive better yields compared to other varieties.

Despite the damage caused by the drought, Sonora continues to be the main wheat-producing state with approximately 47 percent of total Mexican production. Sonora is followed by Guanajuato, which contributes 19 percent, Baja California with 14 percent and Chihuahua with 5 percent. Durum wheat continues to be the principal crop in Sonora, Baja California and Chihuahua. The majority of the wheat grown in the north and northwestern states of Baja California and Sonora is produced using advanced technology similar to that in the United States. In the "Bajio" region the varieties that dominate are the soft or semi-soft variety.

SAGARPA, along with several millers and the Mexican Millers Association (CANIMOLT), have continued promoting more bread-wheat production with the objective of reducing the "oversupply" of durum, which is difficult to market, while increasing the availability of bread wheat, mainly in the "Bajio" region. However, this objective faces two main obstacles in the northern states (Sonora, Baja California and Chihuahua): Pasta, the major end-product derived from durum wheat, is not consumed at a high rate in Mexico but durum yields are higher than for bread wheat in the desert regions of Baja California and Sonora, making it the top choice for producers. Second, durum varieties are more disease resistant - especially important for Karnal bunt which continues to be a problem in Sonora. According to industry sources, if Mexican growers are successful in shifting to bread wheat varieties in the north, it would have the effect of displacing imports from the United States and Canada. However, increased production levels may be difficult to realize as the availability of water for irrigation appears likely to be limiting factor for continued production growth, particularly in 2012, due to the severe drought that has affected most of the country.

Regularly, as much as 40 percent of Mexican durum production is marketed as animal feed. According to industry contacts, this percentage was higher in 2011 due to the lack of alternative feed grains in Sonora and Sinaloa. During the past few years, the states of Sonora and Baja California have accounted

for between 55 to 60 percent of total Mexican durum wheat production. Since most of the wheat production in the major growing regions is irrigated, average yields are expected to remain steady at around 5.4 MT/ha. According to SAGARPA data, nearly 75 percent of the nationwide wheat planted area is irrigated.

Consumption

Total wheat consumption for MY 2012/13 is forecast to register a 2.5 percent decrease over the previous year due to a lower volumes being used for animal feed. Market analysts indicate that farmers in the northwest of the country, who traditionally use part of their crop for animal feed, will substitute wheat for corn and sorghum, assuming a higher availability and affordable prices of these grains in MY 2012/13. However, on the FSI consumption side, the picture is completely different as Post expects a slight increase in MY 2012/13 due to population growth and the continued interest among consumers for wheat-baked goods.

According to surveys conducted by the Mexican government, bread accounts for 62 percent of human wheat consumption, cookies and crackers account for 12 percent, wheat for tortillas 8 percent, and pastas (including noodles) 18 percent. Nearly all of wheat for animal feed is used in the swine, cattle, and aquaculture sectors in Sonora and Baja California.

The wheat milling industry continues to be one of the most important destinations for U.S. wheat. According to data from CANIMOLT, Mexico has 93 different millers that process approximately 5.7 MMT of wheat and produce 4.3 MMT of flour each year. The remaining byproducts are consumed by the livestock sector. The millers have a capacity of approximately 8.4 MMT of production. CANIMOLT estimates that 51 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. According to CANIMOLT, per-capita wheat flour (including semolina) consumption has increased 14 percent (from 35 kilograms to 40 kilograms) over the past 5 years. This increase is due, in large part, to the growing popularity of bread consumption throughout Mexico. The pasta and noodle sectors have also seen large growth in consumption.

According to Mexico's National Bakery Industry (CANAINPA) there are 30,194 bakeries in Mexico, 26,900 artisan bakeries and 3,504 industrial and in-store bakeries. Approximately 70 percent of bread is still manufactured by artisan bakers, down slightly from 74 percent in 2001. The artisanal baker is losing market share to self-service bakeries found in large grocery stores (i.e Wal-Mart, Soriana and others).

Trade

The Post/New wheat import estimate for MY 2010/11 has been decreased slightly (by 5,000 MT) from the USDA/Official estimate. These figures are based in final official data from SAGARPA and the General Customs Directorate of the Finance Secretariat (SHCP). The Post/New total wheat imports forecast for MY 2012/13 is expected remain unchanged at 4.2 MMT. Many Mexican millers continue to purchase U.S. wheat due to its transportation advantages. Also, Post/New wheat exports are forecast to decline to 600,000 MT, due to the expected decrease in domestic production. This volume will likely be exported to traditional destinations such as Italy, Tunisia, Algeria and Peru.

The GOM signed, under the "Forward Contract Program" subsidy program, 300,000 MT of domestic wheat for feed consumption in MY 2011/12. Consequently, approximately 650,000 MT of the total Feed and Residual Consumption will be imported – virtually all from the United States - considering that the forecast of total wheat consumption for feed in MY 2011/12 is 950,000 MT.

Regarding MY 2012/13, these sources stated that approximately 40 percent of total feed consumption of wheat will likely be imported from the United States, (approximately 240,000 MT). For MY 2012/13 the total consumption forecast of wheat used for feed is 600,000 MT. This estimate assumes a higher availability and lower prices of alternative feed grains such as corn and sorghum.

Stocks

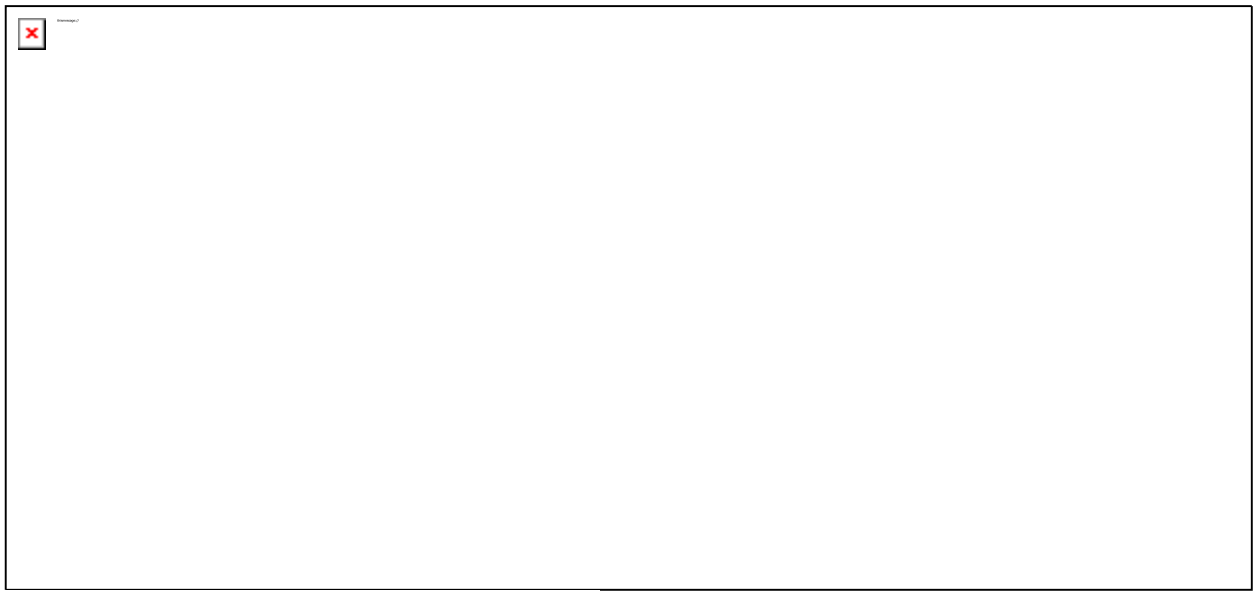
For MY 2012/13, the Post/New ending stocks forecast is estimated to decrease to 315,000 MT, due to the expected decrease in domestic production. The Post/New ending stock estimates for MY 2010/11 and MY 2011/12 have been revised downward to 435,000 MT and 385,000 MT, respectively, from the USDA/Official estimate to reflect updated information in the first year and due to lower-than-previously-estimated domestic production in the second.

Production, Supply and Demand Data Statistics

Table 4. Mexico: Wheat Production, Supply and Demand for MY 2010/11 to 2012/13

Wheat Mexico	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	681	681	705	670		610
Beginning Stocks	520	520	440	435		385
Production	3,679	3,679	3,775	3,700		3,300
MY Imports	3,462	3,457	4,200	4,200		4,200
TY Imports	3,462	3,457	4,200	4,200		4,200
TY Imp. from U.S.	2,939	2,849	0	3,450		3,450
Total Supply	7,661	7,656	8,415	8,335		7,885
MY Exports	821	821	800	800		600
TY Exports	821	821	800	800		600
Feed and Residual	500	500	950	950		700
FSI Consumption	5,900	5,900	6,200	6,200		6,270
Total Consumption	6,400	6,400	7,150	7,150		6,970
Ending Stocks	440	435	465	385		315
Total Distribution	7,661	7,656	8,415	8,335		7,885
1000 HA, 1000 MT, MT/HA						

Figure 3. Mexico: Weekly Prices for Hard and Soft Wheat in Mexico and the U.S. and Durum Wheat in Pesos per Metric ton. Hard & Soft Wheat Market Prices in Mexico* and in the U.S. 2009-2012 (pesos/MT)



***Average weekly market prices in consumption area.**
Note: Future prices correspond to the Dec 12 contract. Sources Reuters and GCMA

Table 5. Mexico: Annual Average Prices of Soft and Durum Wheat in Mexico for 2008 to 2012

	Soft			Durum		
	Pesos/MT	Percent Change	Standard Deviation	Pesos/MT	Percent Change	Standard Deviation
2008	3,689.6		724.3	4,121.8		620.0
2009	3,092.7	-16.2	192.7	3,471.2	-15.8	289.6
2010	3,499.6	13.2	601.5	3,499.8	0.8	518.3
2011	4,095.0	17.0	270.3	4,469.0	27.7	251.3
2012	4,023.3	-1.8	92.9	4,408.7	-1.37	96.1

Source: SFA with information of GCMA. Note: For 2012 was considered the accumulated to the date. Current Exchange Rate: U.S. $1.00 = 13.00 pesos.

Dry Beans

Production

The Post dry bean production estimate of 600,000 MT for MY 2011/12 (January to December) has been increased to 640,000 MT due to more complete data from SAGARPA and slightly larger harvested area than previously estimated. However, it should be noted, than this new production estimate is still approximately 33.5 percent lower than the revised estimated a year earlier. The dry bean output for the 2011 Spring/Summer harvest was reduced sharply due to the prolonged drought, which severely affected yields. The current drought is the most severe in northern Mexico in the past eight decades. Preliminary data indicates that 561,448 ha out of the 1.25 million ha of total planted area were damaged. (Note: 246,000 ha were damaged by drought in the 2010 Spring/Summer crop cycle). The main states affected were: Zacatecas, Durango, Chihuahua, and San Luis Potosi.

Recent field tours throughout these states confirm that the drought affected some areas that traditionally do not have drought problems. Despite the fact that the normal planting season goes from June 15 to August 5, during the 2011 Spring/Summer crop cycle, 75 percent of the plantings in Durango and Zacatecas occurred in the period of August 1 to 12, 2011, due to the rainfall delay. During the months of August and September, precipitation was scarce and erratic which severely affected bean plants blooming and the pollination stages. The National Water Commission recorded 470 mm of rainfall from January to September 2010. In the same period in 2011, only 147 mm, or 68.7 percent less, of rainfall was recorded. It is estimated that fertilizers and pesticides are applied to only 30 percent of the planted surface in Zacatecas and Durango along with scarce usage of "certified" seed. Moreover, in Durango, dry bean production was reduced dramatically by approximately 80 percent in the 2011 Spring/Summer crop cycle according to SAGARPA. This shortage has caused the price of dry beans to increase from 5 to 20 pesos per kilo (roughly U.S. $0.38 to $1.53) in Durango. Sources stated that there is no relief in sight until the rainy season typically begins in May 2012.

The originally projected production for Mexico's 2011 Spring/Summer crop cycle of 927,000 MT is expected to reach only 340,000 MT. Out of these 340,000 MT, approximately 100,000 MT are black beans variety and the remaining 240,000 are other colored dry beans - based on information from government officials and market analysts contacts in Zacatecas, Durango and Chihuahua (see 2011 GAIN reportMX1101 *December Grain and Feed Update – Bean Production Forecast Lower*).

The Post/New Mexican edible dry bean production forecast for MY 2012/13 is estimated to reach 830,000 MT, approximately 30 percent higher than the Post/New revised estimate for MY 2011/12. The main reason for this increase is higher planted area which official sources stated is a result of higher producer prices. Despite this increase, market analysts estimate that the level of production will be slightly lower than the traditional average of near 1 MMT, due to the likelihood of more weather-related issues in 2012.

The production figure for MY 2010/11 has been revised slightly downward, reflecting the latest Mexican government data published by SAGARPA. For MY 2009/10, production and harvested area estimates remain unchanged.

Mexican government officials have been promoting the planting of Pinto "*Saltillo*" variety in the 2011/2012 Fall/Winter crop cycle to guarantee seed availability for the 2012 Spring/Summer cycle. Therefore, there are 4,250 ha dedicated to Pinto "*Saltillo*" beans that are expected to produce 6,000 to 7,000 MT of seed.

Growers traditionally plant their Spring/Summer bean crop from March to August and harvest it from September to March. Weather, given that more than 75 percent of Mexico's bean area is totally reliant on rain, continues being the predominant crop factor. As in the past, the 2012 Spring/Summer crop cycle is expected to account for approximately 70 percent of total edible dry bean production with the remainder coming from the 2012/13 Fall/Winter crop cycle.

Regarding the 2011/12 Fall/Winter crop cycle, major bean-producing states such as Nayarit and Sinaloa have not been affected by the drought. According to government contacts, growers in Nayarit sowed

approximately 54,000 ha of dry beans, the majority of black beans (50 percent) and the rest pinto, "Azufrado" and other colored beans. Expected harvest is expected to reach 70,000 MT.

Despite low temperatures registered in most of the Mexico during the winter season, dry beans in Sinaloa and Nayarit were not affected. However, some unexpected rain fell in late February, which could eventually affect the quality of the harvest.

In Sinaloa, government officials advised that approximately 79,000 ha of beans were planted - mainly with "*Mayocoba*" and "*Azufrado*" beans varieties. The beans were planted early with the harvest obtaining yields of 1.8 to 2.5 MT/ha in some areas - mainly in the irrigated areas of the north of the state such as Los Mochis, Guamuchil and Guasave. However, in other areas, there were significant quality issues resulting from low temperatures and lack of water that provoked a white fly infestation – particularly in the northern parts of Sinaloa which will lead to lower than usual yields. Farm-gate prices in Sinaloa were around 19 pesos per kilo (U.S. $1.46) depending on the quality. Mexican government officials have been assessing the damage in the northern regions of Sinaloa and a report should follow by the end of April 2012. It is expected that Sinaloa bean production will reach approximately 95,000 MT.

Consumption

The Post/New MY 2012/13 forecast for dry bean consumption is expected to increase slightly to 910,000 MT - a slight increase of approximately 1.1 percent over last year's estimate. This increase is driven by population growth. Industry sources have stated that per capita consumption dropped in MY 2011 due to higher than normal dry bean prices. Farm-gate prices paid in Zacatecas were around 13.50 pesos per kilo (roughly U.S. $1.03) for black dry beans and 15 to 16 pesos per kilo for pinto beans (U.S. $1.15 to 1.23).

In Nayarit, farm-gate prices for the *"Azufrado"* bean variety were around 13.5 and 14 pesos per kilo (U.S. $1.03 to 1.07), while pinto variety beans reached 18 pesos per kilogram (U.S. 1.38). Moreover, during February 2012, dry bean prices jumped 5-10 percent in Mexico´s City Central Market Market (Central de Abastos). A popular bean among Mexicans, "*Bayo Berrendo"* variety saw a 40 percent increase while *"Garbancillo Zarco"* bean variety saw an increase of 35 percent.

Trade

The Post/New import forecast is 220,000 MT in MY 2012/13, an increase of 64.8 which should rebuild stocks that were severely affected by the contraction of the domestic production of MY 2011/12. Post adjusted import estimates downward for MY 2011/12 based on final official data published by SAGARPA and the General Customs Directorate of the Finance Secretariat (SHCP). Similarly, export estimate for MY 2011/12 have been revised upward reflecting final official figures.

Stocks

The Post/New ending stocks estimate for MY 2011/12 has been revised downward to 22,000 MT, due to lower than previously estimated imports. Similarly, the ending stocks estimate for MY 2010/11 was revised slightly downward as result of lower than expected production levels.

Policy

Since 2008, the Mexican government has announced a series of measures to confront rising food prices. One of the measures was to authorize a 100,000 MT duty-free import under a tariff rate quota (TRQ) for edible dry beans during the period from July 15 to October 31 (see 2008 GAIN report MX8046 *Mexico Announces a Tariff Rate Quota on Dry Beans 2008*). This TRQ was not used during 2008, 2009 and 2010 as domestic production and U.S. supplies were adequate.

However, due to the current production shortfall and the consequent jump in prices, on January 13, 2012, Mexico's Secretariat of Economy (SE) announced that it will allow a total of 100,000 MT of dry beans to be imported duty-free under a TRQ. The SE will administer the TRQ for WTO-member countries that have protocols set up to export dry beans to Mexico, which is valid from January 13 to December 31, 2012. Shortly afterwards, the Mexican government increased this TRQ for beans from 100,000 MT to 150,000 MT for 2012 (see 2011 GAIN reports MX2003 *Mexico Looks to Increase Imports of Dry Beans* and MX2008 *Mexico Looks to Source More Beans*).

Mexican government officials have informed that Mexico is looking to source from as many countries as possible due to the prolonged drought that has devastated Mexico's domestic dry bean sector. Market analysts have indicated that US growers have significant dry beans for sale but at very high prices (along with excellent quality). Argentina also has some dry beans available but also at high prices. Thus, Mexico was looking to source from additional countries.

As result, on February 24, 2012, the National Service of Agro Alimentary Health, Safety and Quality (SENASICA) concluded negotiations to include China to the list of countries authorized to export dry beans to Mexico. It should be noted that not all the countries are authorized for human consumption, as some are just authorized for seed for planting. Only the United States is authorized to export dry beans for human consumption and seed for planting. Following is the list of countries that have protocols set up to export dry bean to Mexico.

United States	- Dry beans for human consumption and seed for planting
Canada	- Dry beans for human consumption only
Nicaragua	- Dry beans for human consumption only
Argentina	- Dry beans for human consumption only
Bolivia	- Dry beans for human consumption
Brazil	- Dry beans for human consumption
China	- Dry beans for human consumption only
Peru	- Dry beans for human consumption only
Chile	- USA dry bean seed for planting
France	- USA and French bean seed for planting
Netherlands	- USA, Spain and Holland bean seed for planting
India	- Seed for the International Center of Wheat and Corn Improvement CIMMYT

Production, Supply and Demand Data Statistics

Table 6. Mexico: Dry Beans Production, Supply and Demand for MY 2010/11 to 2011/13

Dry Beans	2010/2011			2011/2012			2012/2013		
Mexico	Market Year Begin: Jan 2010			Market Year Begin: Jan 2011			Market Year Begin: Jan 2012		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Harvested	0	1517	1517	0	965	993			1200
Beginning Stocks	0	286	286	0	197	183			22
Production	0	977	963	0	600	640			830
MY Imports	0	115	115	0	160	134			220
TY Imports	0	115	115	0	170	134			220
TY Imp. from U.S.	0	107	107	0	112	134			130
Total Supply	0	1,378	1364	0	957	957			1072
MY Exports	0	29	29	0	30	35			20
TY Exports	0	29	29	0	30	35			20
Feed Consumption	0	0	0	0	0	0			0
FSI Consumption	0	1152	1152	0	900	900			910
Total Consumption	0	1,152	1152	0	900	900			910
Ending Stocks	0	197	183	0	27	22			142
Total Distribution	0	1,378	1364	0	957	957			1072
1000 HA, 1000 MT, MT/HA									

Sorghum

Production

The Post/New sorghum production in Mexico for MY 2012/13 (October/September) is forecast to increase approximately 10.1 percent to 6.8 MMT because of an increase in planting area and the expected growing demand from poultry producers. Mexican poultry producers are anticipating a rise in demand for poultry meat as beef and pork prices continue to rise. Plus, vertical integration is taking place in Mexico's poultry sector leading to more efficiency making poultry meat as one of the cheapest animal protein sources for Mexican consumers. This forecast also assumes normal weather conditions. It should be noted, however, that some industry sources stated that weather patterns 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.

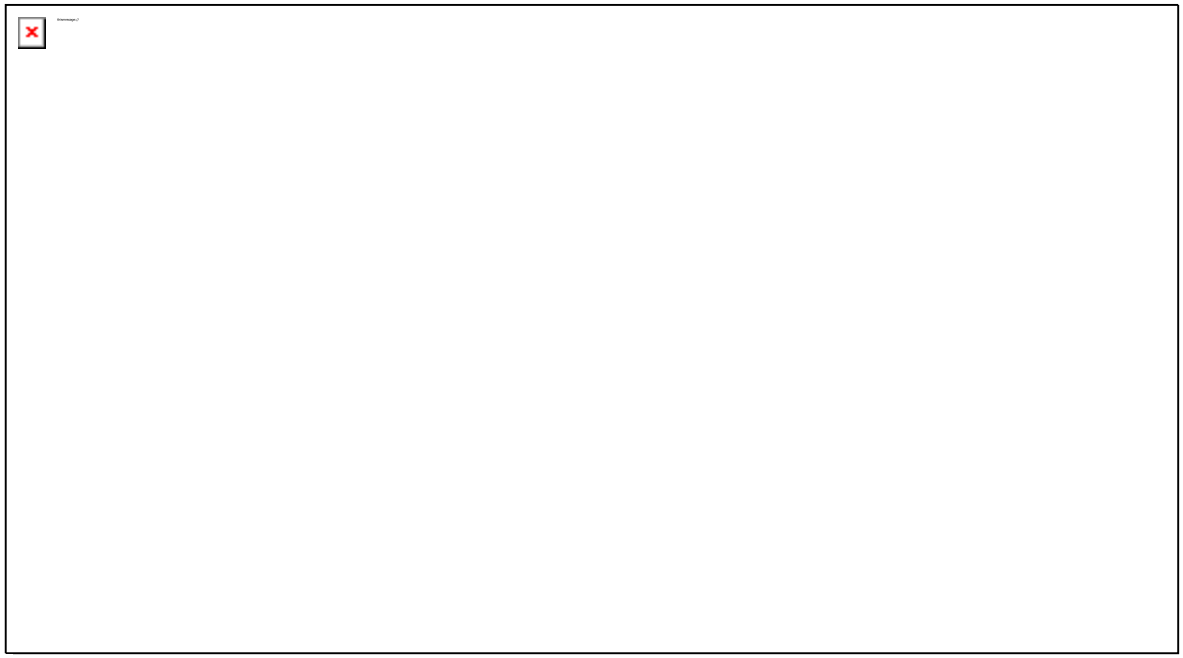
Due to revised SAGARPA data and preliminary information provided by private sector contacts, Post/New estimates for sorghum production and harvested area for MY 2011/12 were adjusted downward. Similarly, the production figure for MY 2010/11 has been revised slightly upward reflecting the final figures published by SAGARPA.

Thus far in the 2011 Spring/Summer crop cycle, water availability has been inadequate in most parts of Mexico for sorghum. Approximately 22 percent of the Spring/Summer crop is irrigated. According to CONAGUA, reservoir levels in the states of Guanajuato, Jalisco, and Michoacan (in west-central Mexico), are approximately 5.1 percent lower than a year ago. These states are major players in the

Spring/Summer crop cycle. Similarly, these states have experienced unfavorable weather conditions and untimely rains across the main producing areas, which decreased the yields of this crop cycle.

According to official preliminary information, as of January 30, 2012, sorghum production in the main producing states decreased by 24.6 percent in the 2011 Spring/Summer crop, compared to a year earlier, due to adverse weather conditions. In Sinaloa, for example, preliminary information indicates that 2011 Spring/Summer sorghum production reached only 79,095 MT - approximately 89.2 percent lower than the previous year's crop due to the prolonged drought and extremely low water reservoir levels. As result of the drought, approximately 45,000 ha irrigated were not planted in Sinaloa. Similarly, Jalisco, Morelos and Tamaulipas were adversely impacted by unfavorable weather conditions, which significantly decreased the yields of this crop cycle. As a result, crop quality is reportedly average to bad. It should be noted that the lower output was also due to a significant decrease in harvested area.

Below is a graph illustrating the difference in the 2011 vs. 2010 Spring/Summer crop production in the main sorghum producing states, with data as of January 30, 2012:



Sorghum production is spread throughout the country with the largest producing states in 2011 being Tamaulipas, Guanajuato and Michoacan. Mexico continues to be the world's fourth largest producer of sorghum and but is the largest importer of sorghum from the United States. The states of Guanajuato, Michoacan, and Jalisco in West Central Mexico make up the "Bajio" region, where the bulk of the fall harvest is produced. For MY 2011/12, official sources estimate that the "Bajio" region will account for approximately 38.6 percent of total production, while Tamaulipas should produce 31 percent of the total production.

Overall crop conditions are reportedly good in Tamaulipas in spite of dry weather conditions. Market analysts expect Tamaulipas to produce approximately 1.9 MMT during the 2011/12 Fall/Winter crop cycle. In general, sorghum is more resistant to dryness than other grains such as corn and wheat. The

Mexican government continues encouraging forward contract purchases between farmers and feed millers through the Forward Contract Program for 2010/11 Fall/Winter Tamaulipas sorghum. As in previous years, it is expected that a high percentage of the crop has been contracted in Tamaulipas through this program. The harvest season is expected to start in May and end in June. Traditionally, Tamaulipas produces the largest percentage of Mexico's Fall/Winter crop, and livestock and poultry producers in several neighboring regions are dependent upon it for feed.

Consumption

The Post/New MY 2012/13 forecast for sorghum total consumption is 8.8 MMT. The main factor for this increase is growing demand from livestock producers - mainly pork and poultry producers. According to industry contacts in the animal feed sector, feed consumption is expected to growth nearly 4 percent as the outlook for the poultry and pork sectors look positive for 2012. The poultry industry is the largest consumer of sorghum in Mexico where it is fed in the form of mixtures and feed concentrates.

The total consumption estimate for MY 2011/12 has been revised downward from USDA/Official estimate based on information from industry contacts. These sources pointed out that as a result of high sorghum prices, due to lower than previously estimated production, it is anticipated that demand-rationing will take place in MY 2011/12. Skyrocketing sorghum prices are expected to suppress consumption as margins in pork and poultry meat sectors will be under considerable pressure. In addition, considering the adverse impact of the drought in several states, market analysts expect a slowdown in the livestock sector and further increases in feed prices. The sorghum consumption estimate for MY 2010/11 has remained without change.

Trade

The Post/New MY 2012/13 import forecast is estimated to increase by 600,000 MT to 2.3 MMT over the Post/New MY 2011/12 due to expected increase in domestic demand of the livestock sector and to rebuild stocks. Mexico's total sorghum import estimate for MY 2011/12 has been revised slightly upward to 1.7 MMT, reflecting the impact of the lower than previously estimated domestic production. This is based on information from trade sources, the analysis of the expectations of the sorghum crop in the United States as well as the rate of imports entering the country. It should be noted that, traditionally, Mexico imports practically 100 percent of its sorghum needs from the United States. Meanwhile, import estimate for MY 2010/11 remains unchanged.

Stocks

Post/New ending stocks for MY 2012/13 are forecast to increase to 578,000 MT due to the expected increase in imports. The Post/New stocks estimates for MY2011/12 has been adjusted downward, from USDA/Official estimates, based on lower than previously estimated production. At the same time, the ending stock estimate for MY 2010/11 has been increased slightly from USDA/Official estimates, due to higher than previously estimated domestic production.

Policy

Please see the corn policy section for information.

Production, Supply and Demand Data Statistics

Table 7. Mexico: Sorghum Production, Supply and Demand for MY 2010/11 to 2012/13

Sorghum Mexico	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,916	1,916	1,700	1,635		1,800
Beginning Stocks	413	413	744	753		278
Production	7,350	7,359	6,600	6,125		6,800
MY Imports	2,381	2,381	1,600	1,700		2,300
TY Imports	2,381	2,381	1,600	1,700		2,300
TY Imp. from U.S.	2,380	2,380	0	1,700		2,300
Total Supply	10,144	10,153	8,944	8,578		9,378
MY Exports	0	0	0	0		0
TY Exports	0	0	0	0		0
Feed and Residual	9,300	9,300	8,550	8,200		8,700
FSI Consumption	100	100	100	100		100
Total Consumption	9,400	9,400	8,650	8,300		8,800
Ending Stocks	744	753	294	278		578
Total Distribution	10,144	10,153	8,944	8,578		9,378
1000 HA, 1000 MT, MT/HA						

Rice

Production

The Post/New rice production estimate has been revised upward from USDA/Official figures by 6.3 percent for MY 2011/12 to 167,000 MT (rough production) reflecting the most recent data from SAGARPA. The reduced rough production is equivalent to 115,000 MT of milled rice. It should be noted, however, that this level of production is approximately 21.5 percent lower compared to the previous year. According to the Mexican Rice Council (MRC), as a result of the bankruptcy of a major rice milling company (Covadunga) that traditionally used to acquire 35 percent of domestic production, many paddy rice growers decided to reduce their planting levels (see 2011 GAIN report MX1006 *January Update for Corn and Rice*). However, Post expects to see an increase in production of 15,000 MT in MY 2012/13 as milling companies begin issuing credits once again to growers.

The MRC indicated many paddy rice growers were not eligible for credits in 2011 as most milling companies faced severe problems in recovering the payments for the harvest in 2010 due the bankruptcy of Covadunga. Another factor that has influenced the reduction in rice planted area, in states such as Campeche, is the switch from rice to soybean and safflower. Many growers are taking advantage of the government Pro Oilseeds program (see 2011 GAIN Report MX1023 *2011 Oilseeds Annual)*. The program established various oilseed production targets and assists oilseeds growers with support for planting, purchasing improved seeds and fertilizers, and technical assistance. The program provides support for up to 15 percent of the average cost of technical assistance, with a limit of 1,100 pesos per ha (roughly U.S. $92.00 per ha) for the production of soybeans, rapeseed (canola), and sunflower seed.

Growers in Veracruz have been planting sugar cane instead of rice, due to more attractive prices. Veracruz and Campeche are the main rice producing states and account for approximately 39 percent of total national production.

Consumption

The Post/New MY 2012/13 rice consumption forecast is 910,000 MT, a 2.5 percent increase from the previous marketing year. Rice prices are expected to remain stable (compared to other grains which are seeing double-digit growth) leading consumers to substitute more expensive grains, such as beans, for rice. Rice continues to be a staple food for the majority of lower income families in Mexico. The Post/New MY 2010/11 and MY 2011/12 consumption estimates remain unchanged - the same of USDA/Official figures.

Trade

The Post/New import forecast for MY 2011/12 is estimated to increase by roughly 6.7 percent because of insufficient domestic production relative to consumer demand. The Post/New import estimates for MY 2010/11 and MY 2011/12 were revised downward and upward, respectively, in order to reflect official data from SAGARPA, the General Customs Directorate of the Secretariat of Finance (SHCP), and industry contacts. For MY 2010/11 and MY 2011/12, rice export estimates remain unchanged from previous estimates.

Stocks

The MY 2010/11 Post/New ending stock estimate was revised downward from the USDA/Official estimate due to lower than previously estimated total imports. This is reflected in the upward adjustment for MY 2011/12 carryover as well. Due to insufficient domestic production, mills continue to import between the traditionally short supply months of April to July (between Mexico's two rice crop cycles). For MY 2012/13 the Post/New stock forecast is 129,000 MT.

Production, Supply and Demand Data Statistics

Table 8. Mexico: Rice Production, Supply and Demand for MY 2010/11 to 2012/13

Rice, Milled	Mexico	2010/2011		2011/2012		2012/2013	
		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011		Market Year Begin: Oct 2012	
		USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested		39	39	32	32		35
Beginning Stocks		138	138	213	141		116
Milled Production		146	146	108	115		125
Rough Production		213	213	157	167		182
Milling Rate (.9999)		6,870	6,870	6,870	6,870		6,870
MY Imports		791	719	725	750		800
TY Imports		791	719	725	750		800
TY Imp. from U.S.		0	676	0	750		800
Total Supply		1,075	1,003	1,046	1,006		1,041

MY Exports	3	3	2	2		2
TY Exports	3	3	2	2		2
Consumption and Residual	859	859	888	888		910
Ending Stocks	213	141	156	116		129
Total Distribution	1,075	1,003	1,046	1,006		1,041
1000 HA, 1000 MT, MT/HA						

For More Information

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

Report Number	**Subject**	**Date Submitted**
MX2008	Mexico Looks to Source More Dry Beans	2/13/2012
MX2003	Mexico Looks to Increase Imports of Dry Beans	1/18/2012
MX1101	December Grain and Feed Update - Bean Production Forecast Lower	12/22/11
MX1095	Rice Production Forecast Lower	12/12/11
MX1059	Grain and Feed July Update	7/25/2011
MX1048	Grain and Feed June Update	6/20/2011
MX1043	Grain and Feed May Update -- Sorghum Situation	5/25/2011
MX1033	Grain and Feed April Update	4/29/2011
MX1017	2011 Grain and Feed Annual	3/14/2011
MX1012	Hard Freeze Damages Sinaloa Corn and Produce	2/11/2011
MX1006	January Update for Corn and Rice	1/28/2011

Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx , equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.