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Mexico

Tomato Annual

Early 2012 Supply Spike Leads to Low Prices, Exports Expected Higher in MY 2012/13

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Report Highlights:
Tomato production for Marketing Year (MY) 2012/13 is forecast at 2.1 million metric tons (MMT). Production for MY 2011/12 is estimated at an unusually high 2.3 MMT. Tomato exports for MY 2011/12 are expected to reach 1.5 MMT, lower than expected as international prices were very low. Exports for MY 2012/13 will depend on weather conditions and international prices but are expected to be higher than the year before. Production under protected agriculture technology is expanding throughout the country for several horticultural products, particularly tomatoes.

Commodities:
Tomato Paste,28-30% TSS Basis
Fresh Tomatoes

Production:
The tomato production forecast for the MY 2012/13 (Oct/Sept) is 2.1 MMT assuming favorable weather conditions and attractive international prices. Although there is no official Government of Mexico (GOM) forecast for overall tomato production for MY2012/13, Post estimates that tomato production will be lower than the previous marketing year as producers from the state of Sinaloa seem discouraged by MY 2011/12 production and marketing results. The overall tomato production estimate for MY 2011/12 is high at about 2.3 MMT as weather was favorable and more acreage under protected agriculture entered production. However, according to producers, not all tomatoes reached the market, as lower international prices resulting from higher supplies caused Sinaloa producers to bring tomatoes back from the border for resorting, discarding the ones that did not meet supreme quality. The spring tomato crop from Baja California and other states is expected to be normal. The overall tomato production estimate for MY 2010/11 was expected to be around 2.0 MMT but, due to weather problems and a freeze in Sinaloa that caused a loss of about 30 percent, total production was lowered to 1.6 MMT based on official information.

Total planted area for tomatoes has been declining but yields have been increasing due to the establishment of protected agriculture (greenhouse, shade-house, tunnel) areas. In 1990, planted area devoted to tomatoes was about 85,500 hectares (ha). In 2000, tomato planted area was roughly 75,800 ha. In 2011, tomato planted area is expected at approximately 57,000 ha. Tomato-producing states like Sinaloa and Baja California switched more area from open field production to greenhouse production and used less area while increasing yields. Other states began to build greenhouse/shade-house infrastructure to grow tomatoes, cucumbers, bell peppers, zucchini, strawberries, and flowers (See policy section).

Tomato planted area for fresh consumption for MY 2012/13 is forecast to be lower than MY 2011/12 area, at 52,000 ha, due to a general tendency to decrease open field tomato plantings in favor of using different types of protected agriculture. Also, area planted could be affected depending on water availability. The drought that Mexico has suffered over the last two years has exhausted local dams, mainly in the northern states. Private sources indicate that dams are currently (May 2012) closed in Sinaloa for agricultural production with resources dedicated to human consumption only. Also, overproduction and the resulting low market prices (domestic and international) in MY 2011/12 could encourage some producers to switch to other products (peppers, cucumbers) or reduce area planted for MY 2012/13.

The planting area estimate for fresh consumption for MY 2011/12 is 54,000 ha and harvested area is 48,900 ha. Low temperatures slowed fruit ripening in Sinaloa and Nayarit during December 2011. By January 2012, the harvest volume spiked creating a large supply overhang. Low prices even forced producers to stop sending product to the domestic market in late February. Oversupply also lowered the international market price, a situation that forced Sinaloa to recall product from the border for resorting and reselection with only the supreme quality exported to the U.S. market. Tomatoes that did not make grade were discarded. Based on official data, the MY 2010/11 planting area estimate for fresh consumption is 53,025 ha. However, harvested area was lower than expected at 38,003 ha due to bad weather and a freeze in Sinaloa where about 13,457 ha were damaged. The Roma variety now represents more than 58 percent of total Mexican tomato production as demand for this type of tomato has surpassed the round tomato.

Yields vary depending on production conditions and inputs. Average yields have grown from 23 MT/ha in 1990 to 28 MT/ha in 2000 and are expected to reach 43 MT/ha or more in 2011. Baja California and Sinaloa growers generally achieve the highest fresh tomato yields, 45 MT/ha or more, due in part to their pest and disease control programs. In other areas of Mexico, growers have significantly lower yields averaging from 20 to 30 MT/ha. This is primarily attributable to less intensive use of inputs. Greenhouse/shade-house yields tend to vary significantly among producers, variety, and state. These yields generally range from 150 MT/ha to 200 MT/ha depending on the technology used.

Table 1. Mexico: Tomato Production, Area (ha) and Volume (MT)

	Estimate MY 2010/11	Estimate MY 2011/12	Forecast MY 2012/13
Total Planted Area (ha)	**56,025**	**57,000**	**55,000**
• For fresh consumption	53,025	54,000	52,000
• For processing	3,000	3,000	3,000
Total Harvested Area (ha)	**40,003**	**49,000**	**48,000**
• For fresh consumption	38,003	46,000	45,000
• For processing	2,000	3,000	3,000
Total production (MT)	**1,670,454**	**2,300,000**	**2,100,000**
• For fresh market	1,630,454	2,210,000	2,010,000
• For processing	40,000	90,000	90,000

Open-field tomato production area has shown a tendency to decrease due to pest problems, high costs of production, swings in both international prices and exchange rates, and limited water availability. The decrease in open field area is more evident in states like Sinaloa, Baja California, and Jalisco. In addition, small open field producers are switching to other products like corn and beans in search of better financial returns. There has also been a gradual switch from open field tomato production to protected production. Greenhouse/shade-house operations are concentrated in the states of Sinaloa, Baja California and Jalisco, but there are also greenhouse operations in the states of Colima, Mexico, Hidalgo, Michoacán, Querétaro, San Luis Potosí, Sonora, and Zacatecas. According to industry sources, there are currently more than 13,000 ha of protected agriculture throughout Mexico devoted to tomato production.

According to sources, protected agriculture is growing in Mexico at about 13 percent a year as producers increasingly become aware of the benefits in production, quality, pest control, and reduced risk exposure to climate change. Moreover, there is growth in protected agriculture as the GOM, at various levels, sees the benefits of introducing this production method to rural and poorer areas as a form of social development. According to the Secretariat of Agriculture (SAGARPA) there are about 20,000 hectares under protected agriculture, with 12,000 ha of greenhouse type and 8,000 ha of shade-house and macro-tunnel type. The state of Sinaloa accounts for 22%, Baja California 14%, Baja California Sur 12%, and Jalisco 10% of protected agriculture. The main horticultural products produced under this technology are tomato (70%), bell pepper (16%), cucumber (10%), and the rest are products like flowers, chili peppers, strawberries and papaya.

In Sinaloa (a winter-cycle tomato producing state) there are about 15,000 ha devoted to tomatoes of which approximately 2,000 ha are under protected production. About 80% of these hectares are under shade-house operations as the climate is generally too hot for greenhouse technology. Due to strong returns, production has trended towards increased use of shade-houses, mainly for products destined for the export market. Growers, however, indicate that combining open field and shade-house production has been useful for marketing their product. Sources point out that less than ideal levels of agricultural sophistication (i.e., lack of established marketing channels, insufficient capital, and ability to manage weather events), means that sometimes growers abandon protected facilities. Through a recent study in 2010/11, the Mexican Association of Protected Horticulture (AMHPAC) found that of the approximately 9,000 ha of greenhouses existing in the northern states of Sinaloa, Sonora, Baja California Norte, and Baja California Sur, 30 percent were not operating.

During the October to May winter season, Sinaloa growers are the main producers and exporters of fresh tomatoes. Other significant producers include Michoacan, Jalisco, and Baja California Sur. Growers in Sinaloa are anticipating that the use of improved and extended shelf varieties, drip irrigation, and plastic mulch will help maintain their high yield levels. During the summer season (May to October), Baja California growers are the main producers and exporters of fresh tomatoes. The states of Michoacan, Jalisco, and Morelos follow Baja California's production. Producers in Sinaloa and Baja California are widely considered more technologically advanced than other producing states. As a result, U.S. California tomatoes face direct competition from Baja California tomatoes. Tomato growers in Jalisco bridge the summer-winter cycle and usually export in October, November, and December after Baja California. The states of Jalisco and Queretaro have been increasing shade-house planted area. This increase is largely attributable to recent success in exporting to the United States.

Planting and harvesting of tomatoes for processing is largely a function of fresh domestic market prices and international tomato paste prices. Areas that were previously devoted to planting tomatoes for the processing industry have shifted to fresh market, as demand for processing tomatoes has declined in the face of high international fresh market prices. Area planted in both MY 2011/12 and MY 2012/13 to processed tomatoes is estimated at 3,000 ha. Yields for this type of tomato range from 30 MT/ha to 40 MT/ha given normal weather conditions. If the industry needs to process additional tomatoes, it purchases supplies from the open market. Due to the February 2011 freeze in Sinaloa, a large portion of the area devoted to industrial tomato use was damaged.

Tomato production costs remain high across the country. Credit availability remains a constraining factor for growers since Mexican banks do not provide loans for tomato production. In a few instances, producers with export contracts can receive some operating capital from contracting companies in the United States. According to growers, imported agrochemicals, seeds, and fertilizers are the most costly inputs. Current depreciation of the Mexican peso vs. the U.S. dollar will increase costs of production as the exchange rate reached 13.75 pesos per U.S. $1.00 in December 2011 but has fallen to 14.20 pesos per U.S. $1.00 in June 2012.

Consumption:

The MY 2012/13 final consumption figure will depend on tomato exports to the United States, as domestic consumption is a residual after exporting. Consumption for MY 2011/12 is estimated to be higher compared to the previous marketing year as prices were low due to large supplies. Consumption

for MY 2010/11 was lower than expected due to lower supplies during the winter season, high export volumes, and high domestic prices.

Tomato consumption is price sensitive in Mexico. Thus, marginal changes in prices tend to lead to significant changes in demand. Although protected production is still limited and tends to be higher priced, the market now has the option of meeting more of the domestic demand with greenhouse/shade-house tomatoes.

Local tomato prices tend to rise from March to May because of increased exports from the state of Sinaloa, which in turn reduces supply in the domestic market. However, during the supply spike of the winter season of 2011/12, prices were down more than 50 percent compared to 2010/11. Tomato exports also tend to increase from June to August, as this is the international market window for tomatoes from Baja California. By the end of November and December, tomato prices usually rise again, due to the increased export volume from the states of Jalisco and Sinaloa.

The tomato paste industry always buys tomatoes from the fresh market in addition to buying contracted tomatoes for processing. However, price competition in the fresh market has become a problem for the processing industry. Over the past several years, relatively high fresh tomato prices have diverted product away from the processing market. Thus, there has been very little industry demand for tomatoes destined to paste production as it is economically more feasible to import tomato paste rather than produce it domestically.

Trade:

Exports for MY 2012/13 are expected to rebound from MY 2011/12 levels if weather conditions are good and international prices increase from last year's levels. Tomato exports for MY 2011/12 are estimated at to reach 1.5 MMT. According to industry sources, tomato exports during the 2011/12 winter season were lower from Sinaloa as higher supplies resulted in very low prices for the international market. In fact, according to traders, prices in January 2012 were selling almost at the lowest price allowed under the suspension agreement—about US $0.21/lb. To prevent prices from declining further and to stabilize the market, producers in Sinaloa agreed to be more selective in the tomato quality for export resulting in a large quantity of tomatoes being kept off the market and discarded. However, it is important to note that other states like Jalisco, Queretaro, and San Luis Potosi are increasing export volumes during this window, crossing the border through Texas. Tomato exports for MY 2010/11were lower compared to MY 2009/10 exports or 1.43 MMT, as Sinaloa reduced exports by roughly 30 percent due to the freeze. According to the U.S. Census Bureau, 40 percent of all tomatoes imported into the United States from Mexico during MY 2010/11 were shade/greenhouse tomatoes.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption and fluctuate depending on international prices and domestic availability. Due to weather problems in Mexico, there was an opportunity for higher imports for MY 2010/11, where an estimated of 31,058 MT of tomatoes were imported into Mexico from the United States. Import estimates for MY 2011/12 are expected to be lower as domestic supplies are higher and prices are lower. Most imported tomatoes are sold in the northern states of Nuevo Leon, Sonora, Baja California, and Chihuahua.

Policy:

Since 2009, the GOM has operated strategic projects for protected agriculture where the Federal and state governments participate with funds through FIRCO, a Mexican trust fund for shared risk (www.firco.gob.mx/). According to SAGARPA, more than $92.7 million USD were designated to promote protected agriculture through a Program of Investment Support for Infrastructure, which encourages production improvements and climate change mitigation. In 2009 and 2010, $189.2 million USD were destined for the establishment of 2,500 ha of protected agriculture—65% for greenhouses, 25% shade-houses, 7% macro-tunnel, 3% micro-tunnel and three Regional Training Centers (production, post-production, and marketing). Supported production includes 859 ha of tomatoes (41%), 428 ha of cucumbers (20%), 347 ha of bell peppers (16%), 274 ha of berries (13%), and the rest are planted with zucchini, grapes, brussel sprouts, habanero and green peppers, and ornamental plants. These types of projects have helped to consolidate development areas for small producers in the states of Oaxaca, Nuevo Leon, Morelos and Puebla. Some of the projects in marginal areas are geared first for self consumption within the communities. Read more about this program at: http://www.sagarpa.gob.mx/agricultura/Paginas/Agricultura-Protegida2012.aspx

According to SAGARPA, the program for protected agriculture in 2012 will be very similar, in general, to the 2011 program: support funds are $18,018 USD/ha for macro-tunnel, $36,036 USD/ha for shade-house and $108,108 USD/ha for greenhouse technology. Only investments for new infrastructure and new equipment are supported and funds cannot be used to buy land or housing. Support could reach up to 60 percent for highly marginalized areas and up to 45 percent for other producers. For additional information see the following page: http://www.sagarpa.gob.mx/agricultura/Documents/Agricultura%20Protegida%202012/TRIPTICO%202012%20agricultura%20protegida.pdf

Both producers and SAGARPA officials are extremely cognizant of the importance of meeting quality standards for fruits and vegetables and have implemented programs to comply with U.S. food safety requirements.

The Tomato Suspension Agreement between Mexico and the United States, signed on December 4, 2002, binds participants in the agreement to an agreed upon reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2 cents per pound and the reference price for the winter season (October 23 to June 30) is 21.69 cents per pound. According to growers, tomato prices for MY 2011/12 have been close to the reference price. The U.S. Department of Commerce will soon begin the third sunset review of the agreement (ending January 2013) to evaluate how well it worked. Low prices over the last six months have lead to complaints by both Mexican and U.S. growers about the functioning of the agreement, with sellers and brokers accused of under-cutting the agreement floor price. Producer associations have exerted considerable effort combating these bad actors.

Tariffs:

Mexico, in general, does not import tomatoes from countries other than the United States. Mexico's most favored nation (MFN) applied tariff rate for tomato (HTS 0702) imports is 10 percent. Countries with tariff-free access to Mexico include: the United States, Canada, Chile, Costa Rica, Nicaragua, Uruguay, Bolivia, the European Union, and Japan. There is an applied tariff rate of 28% for tomatoes from Colombia. Fresh tomato exports to the United States as well as imports have zero duty under

NAFTA. The tomato tariff classification numbers are 0702.0001 and 0702.0099. Mexico does not assess an export tariff.

Marketing:

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through wholesale markets and proceed to large supermarkets and retail stores. A few stores import directly without going through wholesale marketing channels. This remains somewhat rare, however, since most retail operations do not have expertise importing or the labor resources to repack tomatoes based on maturity, size, etc. before products are showcased to consumers. In the past, promotional campaigns for U.S. tomatoes focused on proper tomato handling techniques, point of sale materials, and in-store promotions. Most of the imported product is destined to border cities and states. Tomatoes for the export market are shipped directly from the producing area to the United States border.

Prices and Trade:

TABLE 2. MEXICO: WHOLESALE ROUND TOMATO PRICES
Mexico City – Pesos/Kg

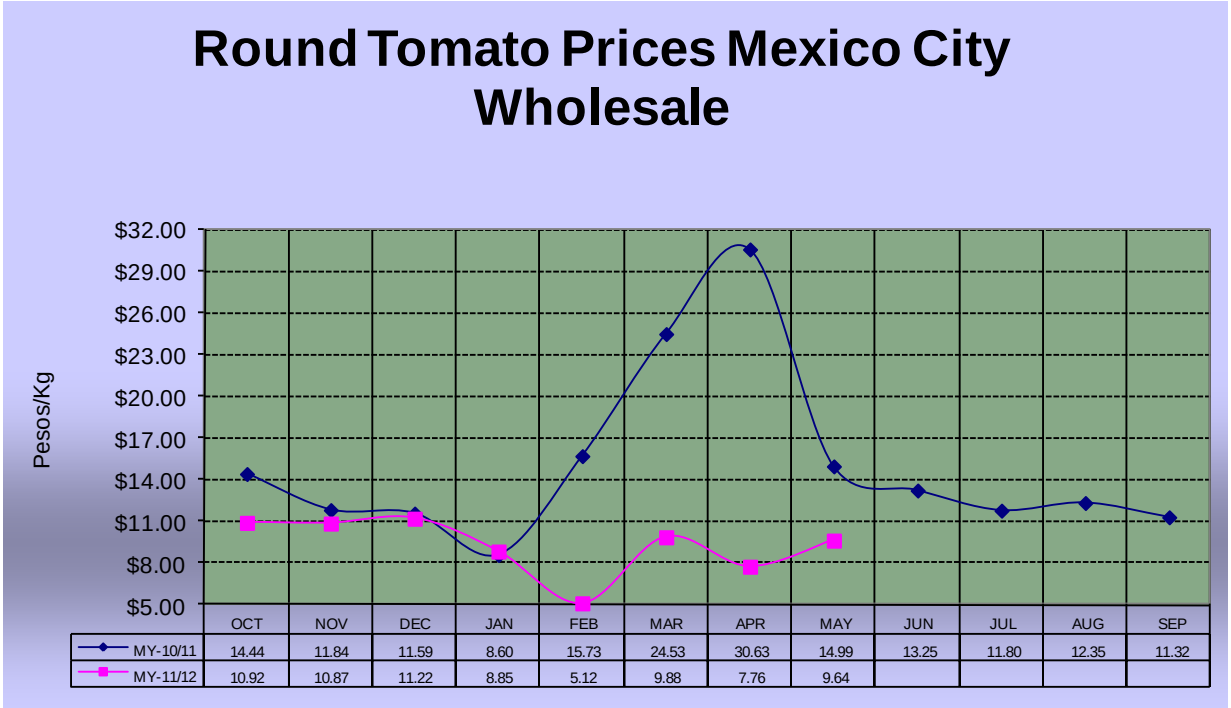
Month	2010	2011	2012	% Change 2012/2011
January	11.05	8.60	8.85	0.11
February	12.29	15.73	5.12	(67.45)
March	26.03	24.53	9.88	(59.72)
April	17.40	30.63	7.76	(74.66)
May	11.96	14.99	9.64	(35.69)
June	6.09	13.25	N/A	N/A
July	7.88	11.80	N/A	N/A
August	12.00	12.35	N/A	N/A
September	12.69	11.32	N/A	N/A
October	14.44	10.92	N/A	N/A
November	11.84	10.87	N/A	N/A
December	11.59	11.22	N/A	N/A

TABLE 3. MEXICO: WHOLESALE ROMA TOMATO PRICES
Mexico city – Pesos/Kg

Month	2010	2011	2012	% Change 2012/2011
January	5.72	8.20	7.26	(11.46)
February	6.60	9.83	4.96	(49.54)
March	9.42	10.42	6.38	(38.77)
April	5.54	16.06	5.63	(64.94)
May	4.95	7.09	7.72	8.88

June	4.15	5.51	N/A	N/A
July	5.76	6.12	N/A	N/A
August	6.44	5.39	N/A	N/A
September	8.45	6.23	N/A	N/A
October	12.19	5.68	N/A	N/A
November	11.78	5.12	N/A	N/A
December	10.66	8.15	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados
Note: 2011 Exchange Rate Avg.: U.S. $1.00 = 12.42 pesos.
June 1, 2012 Exchange Rate: U.S. $1.00 = 14.30 pesos



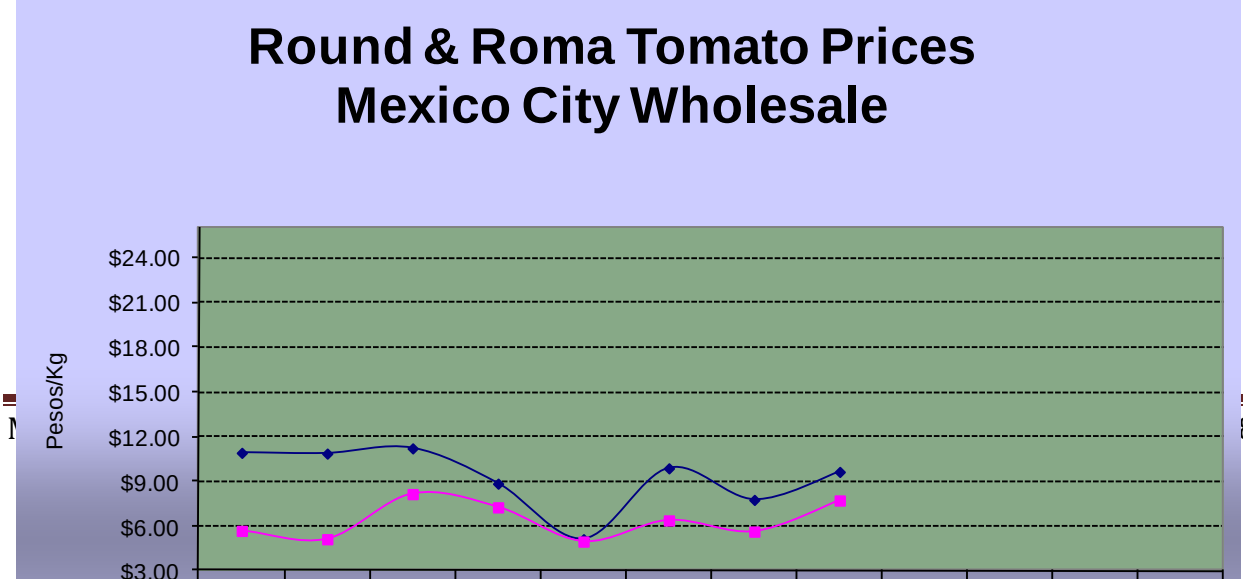


Table 4. Mexico: MY2010/11 Tomato Exports and Imports by Volume (MT) and Value ($)

Exports for MY 2010/11 (Oct-Sept):			**Imports for MY 2010/11 (Oct-Sept):**		
Destination	Volume	Value 000	Origin	Volume	Value 000
U.S.	1,302,668	$1,732,831.7	U.S.	31,058	$58,714.0
Canada	127,669	179,154.2			
Others not listed	3,621	4,922.9	Others not listed	0	
Grand Total	**1,433,958**	**$1,916,908.8**	**Grand Total**	**31,058**	**$58,714.0**

SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, March 2012

Table 5 Mexico: MY2011/12* Tomato Exports and Imports by Volume (MT) and Value ($)

Exports for MY 2011/12* (Oct-Sept):			Imports for MY 2011/12* (Oct-Sept)		
Destination	Volume	Value 000	Origin	Volume	Value 000
U.S.	794,827	$1,059,067.8	U.S.	9,166	$13,470.0
Canada	31,710	40,583.6	Chile	0	
Others not listed	2,685	3,426.7	Others not listed	0	
Grand Total	**829,222**	**$1,059,068,**	**Grand Total**	**9,166**	**$13,470.0**

*** Through March 2012 .**

SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, March 2012

Table 6. Mexico: Monthly Exchange Rate Averages 2008-2012 MX Pesos per U.S. $1.00					
	2008	**2009**	**2010**	**2011**	**2012**
January	10.91	13.15	12.80	12.13	13.46
February	10.77	14.55	12.95	12.06	12.79
March	10.74	14.71	12.59	12.00	12.75
April	10.52	13.41	12.23	11.73	13.05
May	10.44	13.19	12.71	11.64	13.60
June	10.33	13.47	12.72	11.80	14.30
July	10.24	13.36	12.82	11.67	

August	10.10	13.00	12.74	12.22	
September	10.61	13.41	12.82	12.97	
October	12.56	13.24	12.44	13.46	
November	12.31	13.12	12.33	13.67	
December	13.40	12.85	12.39	13.75	
Annual Avg.	**11.14**	**12.33**	**12.62**	**12.42**	
□ As of 1er week of June 2012					
Source: Mexican Federal Register□ Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.					

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