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GAIN Report

Global Agricultural Information Network

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Mexico

Avocado Annual

Avocado Exports to the US Remain Strong in MY 2018/19

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Report Highlights:

Mexican Hass avocado production is forecast at 1.9 million metric tons (MMT) or more for marketing year (MY) 2018/2019. Overall production is expected to be good as weather conditions have been optimal thus far. Sources indicate that the implementation of phytosanitary pest-control programs has helped boost production. Michoacán is the world leader in avocado production, and accounts for 80 percent of total Mexican avocado supplies. Exports for MY 2018/19 are forecast to be close to 1.0 MMT. Exports to the United States are expected to continue to be strong and growing.

Production:

Post's avocado production forecast for MY 2018/19 (July/June) is between 1.9 and 2.0 MMT based on market intelligence. Overall production is expected to be good as weather conditions have been optimal thus far. Sources indicate that the implementation of phytosanitary pest-control programs has helped boost production. Production estimates for MY 2017/18 are at about 2.0 MMT, based on official estimates. According to producers, avocado trees had an alternate-bearing high crop and good rainfall. Production for MY 2016/17 is at 2.02 MMT, based on official data.

The Mexican Avocado Association of Producers and Export Packers (APEAM – Asociación de Productores y Empacadores Exportadores de Aguacate de México) is working with producers in Michoacán to invest in technological improvements to ensure that avocados are free of pests and chemical or biological residues. This investment continues to improve the quality of the fruit. Michoacán is Mexico's leader in avocado production and accounts for 80 percent of total production.

The majority of avocado production in Michoacán occurs in small orchards of just five to ten hectares. Many producers have implemented SAGARPA's food safety program recommendations and consider this practice and any added costs as a long-term investment. According to sources, costs of production in Michoacán vary from about \$81,000 pesos/Ha (USD \$4,308/Ha) using basic technology to about \$110,000 pesos/Ha (USD \$5,851/Ha) with advanced technology that includes machinery and irrigation systems. The depreciation of the peso against the dollar keeps increasing these costs. Yields vary from eight to 10 metric tons per hectare (MT/Ha) or more depending on the level of technology used. Michoacán and Jalisco states are over 11 MT/Ha. Producers indicate that the overall average for the last three marketing years has been 10.5 MT/Ha. However, yields for MY 2017/18 are estimated at 10.3 MT/Ha due to the alternate cycle.

Area planted to avocados is not expected to grow as strong as in the past, as growers are increasing area in a more orderly way. However, these planting decisions will depend on international demand for Mexican Hass avocados. In fact, the grower's vision in Michoacán is to maintain the existing area planted and increase yields by using better cultivating methods and techniques. Total area planted for avocados for MY 2017/18 is estimated at 231,028 hectares (Ha); area planted in MY 2016/17 is estimated at 218,492 Ha. The area in Michoacán increased almost 5 percent from MY 2016/17 to MY 2017/18, a slower growth compared to previous years.

| Table 1. Mexico – Avocado | | | |
|----------------------------------|-------------------|-------------------|-----------------|
| Planted Area for Selected States | | | |
| States | Estimates | Forecast | Percent |
| (Ha) | MY 2016/17 | MY 2017/18 | increase |

| | | | |
|------------------|----------------|----------------|------------|
| Chiapas | 3,241 | 3,281 | 1.2 |
| Guerrero | 4,492 | 4,273 | -4.8 |
| Jalisco | 21,027 | 22,534 | 7.1 |
| Mexico State | 8,841 | 9,978 | 12.8 |
| Michoacán | 158,805 | 166,512 | 4.8 |
| Nayarit | 6,129 | 7,059 | 15.1 |
| National Total | 218,492 | 231,028 | 5.7 |

Source: Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food/Agrifood and Fisheries Information System. (Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion/Servicio de Informacion Agroalimentaria y Pesquera) -SAGARPA/SIAP

Consumption:

Fresh domestic consumption depends on the volume of exported product, as producers with export access prefer to send as much product as possible to higher-paying international markets.

Domestic consumption for MY 2017/18 is estimated at 764,000 MT, however prices were higher than the previous marketing year. Consumption for MY 2018/19 is forecast to be similar as in MY 2017/18 due to high domestic prices and a lower consumer purchasing power. However, this will depend on supply, prices and avocado exports. There is a grower's preference to supply the export market first, and then the rest is consumed by the domestic market, as avocados are a staple food in most Mexican households. Per capita consumption according to growers is between 6.5 to 7 kg per capita because of increasing exports and higher domestic prices. Prices for MY 2017/18 began at high levels compared to MY 2016/17 and continued very high due to lower volumes available. Avocado prices for MY 2018/19 began at lower levels but have been increasing due to demand.

| | 2016 | 2017 | 2018 | % Change |
|--|-------------|-------------|-------------|-----------------|
| January | 16.00 | 26.00 | 35.96 | 30.30 |
| February | 18.67 | 28.25 | 37.13 | 31.43 |
| March | 18.48 | 33.39 | 35.10 | 5.12 |
| April | 19.68 | 44.82 | 40.00 | (10.75) |
| May | 30.44 | 53.53 | 45.36 | (15.26) |
| June | 43.27 | 56.44 | 41.64 | (26.22) |
| July | 44.12 | 60.76 | 40.11 | (33.98) |
| August | 30.48 | 47.67 | 39.73 | (16.65) |
| September | 29.44 | 38.16 | 41.72 | 9.32 |
| October | 27.08 | 31.96 | 35.72 | 11.76 |
| November | 28.24 | 32.39 | 32.11 • | (0.86) |
| December | 26.64 | 34.63 | N/A | N/A |
| Source: Servicio Nacional de Informacion de Mercados (SNIIM) 2016 Exchange Rate Avg.: U.S.\$ 1.00 = \$ 18.62 pesos 2017 Exchange Rate Avg.: U.S.\$ 1.00 = \$ 18.91 pesos November 16, 2018 exchange rate U.S. \$ 1.00 = \$ 20.33pesos | | | | |

Most states grow the Hass variety due to its longer shelf life and demand in foreign markets. Other avocado varieties planted in Mexico at smaller scales are Fuerte, Criollo, Bacon, Pinkerton, Gwen, and Reed.

Fresh avocado exports continue to drive producer profitability despite the fact that other market niches are developing (for example, the extraction and export of avocado oil for the cosmetic industry). The cosmetic industry has not taken full advantage of this demand segment, as there is a consumer perception that avocado byproducts are expensive. A small amount of avocado oil is sold for food use.

Trade:

Avocado exports have been increasing in the last three years, and traders forecast avocado exports for MY 2018/19 to be close to 1.0 million metric tons (MMT) due to expected high international demand. The depreciation of the peso against the dollar has helped international sales in general. Exports for MY 2017/18 reached APEAM's goal of 1.0 MMT. Avocado exports for MY 2016/17 were 873,963 MT. Exports to the United States for MY 2017/18 were 766,431 MT according to the Global Trade Atlas, however APEAM data is slightly higher at 869,057 MT.

In general, exports have been increasing due to good international demand and year-round market access to all 50 U.S. states. In addition, exports to Canada, Japan and Europe have increased. Avocado exports for MY 2017/18 generated \$2.8 billion dollars, whereas in MY 2016/17 exports generated 2.5 billion dollars. Avocado prices for MY 2018/19 for size 48s in the United States, F.O.B L.A. began in July at about US\$42.00 a carton, and in September reached about US\$72.00. By mid- October prices dropped to around US\$26.00.

A price dispute between producers in Michoacán and packing companies caused growers to cease harvesting activities, and exports were suspended on October 29, 2018 for approximately two weeks. Michoacán is the only state that can ship avocados to the U.S. Growers were demanding that a minimum price be set, as they believed they were being paid very little for product that was being shipped to the U.S. market. An agreement was reached to end the strike on Nov. 14, 2018 when the parties along with the Mexican government agreed to have produce weekly information including: product exported, product sent to domestic market, volumes sold, and destination. The intention is to have transparent commercial value information of the avocado trade. Parties agreed that market prices will be adjusted according to the supply/demand principle. Producers believe that the strike resulted in an estimated deficit of 38,000 metric tons in the U.S. market, but that the product was be redistributed in the following weeks.

The United States is the top export market for Mexico, consuming between 74 and 79 percent of total exports. Japan and Canada are key markets, with 6-7 percent of the Japanese market, 7-8 percent of the Canadian market. About forty-five packers in Michoacán are eligible to export avocados to the United States. Meanwhile, other producing states have concentrated on exporting to Japan, Canada, France, and Spain.

Industry representatives indicate that processed avocado (guacamole) exports are approximately 170,000 MT per year or more, and that these products are sold to the United States, Europe, the Middle

East, and Asia. Unfortunately, there is no official statistical data available. The vast majority of the export business is managed directly by packers, many of whom have significant U.S. investments. Growers in Michoacán generally sell their fruit on the spot to a packer in terms of pesos per kilo. The harvest and associated costs (transportation, boxes, etc.) are covered by packing plants, which also supply the actual harvesting labor teams. As with other tree fruits, the main functions of the packer prior to export are to clean, sort by quality (mainly size and appearance but also dry matter sampling), and pack according to contracted specifications (labeled, bagged, boxed loose, clam shell, etc.). Generally, product that does not meet contracted export specifications is sent to the domestic market.

Due to large domestic supplies of avocados, there are almost no imports of this product, with the exception of a small amount from California.

Table 3. Mexico Trade Matrix:

| Avocado 0804.40 | | Unit: Metric Tons | |
|---|----------------|---|----------|
| Exports for MY 2016/17 (July-June) to: | | Imports for MY 2016/17 (July-June) from: | |
| U.S | 668,095 | U.S | 0 |
| Japan | 61,716 | | |
| Canada | 71,607 | | |
| Other | 72,545 | Other | |
| TOTAL | 873,963 | TOTAL | 0 |
| SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, June 2018 | | | |

| Avocado 0804.40 | | Unit: Metric Tons | |
|---|------------------|---|----------|
| Exports for MY 2017/18 (July-June) to: | | Imports for MY 2017/18 (July-June) from: | |
| U.S | 766.431 | U.S | 0 |
| Canada | 82,848 | | |
| Japan | 59.677 | | |
| Other | 892.956 | Other | |
| TOTAL | 1,035.481 | TOTAL | 0 |
| SOURCE: Global Trade Information Services, Inc. Global Trade Atlas, Mexico Edition, August 2018 | | | |

Policy:

Avocado exports from all of Mexico have access to the United States, subject to compliance with the prescribed systems approach for shipping and certification. Michoacán is currently the only state in Mexico with sufficient requirements to export Hass avocados to the United States. The state of Jalisco is working to meet certification requirements to be able to export to the U.S. market. Other avocado-producing states are active in exporting to the international market.

Tariffs:

Mexican fresh Hass avocados entering the United States are not subject to any duty. However, Mexican avocados are charged a fee of 2.5 U.S. cents per pound for the Hass Avocado Board and the Agricultural Marketing Service (AMS) for promotional purposes. The producers also pay the

Association (APEAM) 5 U.S. cents per pound of exported avocados to cover USDA inspection fees. Fresh avocado imports (HS 0804.40.01) from the United States are not subject to any duty, but are subject to phytosanitary and sanitary inspections by SAGARPA.