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Grain and Feed

Annual Report

2004

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Report Highlights:

Mexico's imports of corn and dry edible beans in MY 2004/05 are forecast to remain the same as MY 2003/04, due to continued good crop production; MY 2004/05 sorghum imports are forecast to increase 3.5 percent, due to stronger demand for feed. For MY 2004/05, production of corn and dry beans are expected to remain unchanged assuming normal weather conditions, while sorghum is expected to decline slightly from the MY 2003/04 harvest. Total Mexican wheat production for MY 2004/05 is forecast to remain unchanged from the previous year's revised estimate of 2.4 million metric tons (MMT), due to the continued severe water shortage for irrigated crops in the principle wheat producing state of Sonora. Mexican rice production for MY 2004/05 is forecast to increase from the previous year's revised estimate to 194,000 MT (milled), due to expected federal and state government and industry assistance programs of nearly 25 million pesos (roughly U.S.\$ 2.2 million) for the next three years.

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

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SECTION I. SITUATION AND OUTLOOK

Wheat

Total Mexican wheat production for MY 2004/05 (Jul-Jun) is forecast to remain unchanged from the previous year's revised estimate of 2.4 million metric tons (MMT), due to a severe water shortage for crop irrigation in the principle wheat producing state of Sonora. Imports for MY 2004/05 are forecast to increase 5.4 percent from the previous year's revised estimate, reaching 3.90 MMT, due to the expected drop in domestic production. The MY 2003/04, import estimate has been revised upward from our previous estimate, due to the decrease in domestic production caused by this severe water shortage.

Rice

Mexican rice production for MY 2004/05 is forecast to increase from the previous year's revised estimate to 194,000 MT (milled), due to expected federal and state government and industry assistance programs of nearly 25 million pesos for the next three years. For MY 2003/04, rice production has been revised upward, due to increased area planted and higher yields from improved inputs. Additionally, prices of imported rice have increased and domestically-grown rice is now more competitive with the help of federal and state government assistance programs. Imports in MY 2004/05 are forecast upward based on insufficient domestic production, lower beginning stocks and an expected consumption increase.

Corn

For corn, the production forecast for MY 2004/05 (Oct-Sep) is 20.3 MMT -- a figure which remains unchanged from the revised estimate of MY 2003/04 -- and assumes normal weather conditions. MY 2004/05 imports are forecast to remain unchanged from the MY 2003/04 revised estimate at 6.2 MMT. For MY 2003/04, the import estimate has been lowered to 6.2 MMT, due to improved domestic production, which was revised upward to 20.3 MMT. The CY 2004 import quota for U.S. corn is 3,359.79 MMT and will be administered as before with the government allocating import permits (cupos) to importers and industry. However, as in 2003, the GOM has announced new changes in the policy to allocate cupos (see MX4003). It should be noted that cracked corn is not subject to the cupos system. Cracked corn is not reflected in the corn PSD table, but imports are estimated at approximately 2.6 MMT for MY 2003/04, or 42 percent higher than a year before. Private sources predict that this trend to import cracked corn will continue in MY 2004/05, albeit at slower rate, as some big feed importers have complained of the bad quality of cracked corn and the sometimes unappealing prices. Domestic feed demand is forecast at 10.8 MMT for MY 2004/05. Due to higher than expected production estimate for MY 2003/04, ending stocks have been revised upward. For MY 2004/05 ending stocks are forecast to reach 3.9 MMT.

Sorghum

For MY 2004/05, production is forecast at 6.2 MMT, a slight reduction from last year, due to the resumption of normal weather conditions. The production estimate for MY 2003/04 (Oct-Sep) has been raised sharply to 6.4 MMT, due to increased plantings and above normal weather conditions during the spring/summer crop. MY 2004/05 imports are forecast to increase slightly to 3.0 MMT as a result of stronger demand for feed. The MY 2003/04 import estimate has been lowered to 2.9 MMT as the result of increased domestic production.

It should be noted that the corn and sorghum production estimates released by the government as of January 31, 2004, are well above the estimates of industry and regional traders. Industry traders and local feed millers, for example, report that corn production in Mexico for MY 2003/04 will not exceed 20.3 MMT, while official data indicates that corn production will be 21.320 MMT. According to official sources, the Agriculture Secretariat has modified its methodology to collect information at county level instead of state level, which has increased its estimations on production and harvested areas. Officials admitted that they likely would review this new methodology.

Dry Beans

For 2004/05, production is forecast to remain unchanged at 1.3 MMT and assumes normal weather conditions. The production estimate for MY 2003/04 has been lowered, reflecting most recent official information. MY 2004/05 imports are forecast to remain unchanged at approximately 50,000 MT, due to the relatively large crop and inventories. The estimate for MY 2003/04 imports have been adjusted upward based on preliminary official data and estimates from private sources.

SECTION II. STATISTICAL TABLES

PSD Table	Mexico					
Country:	Mexico					
Commodity:	Wheat			(1000 HA) (1000 MT)		
Market Year Begin	Revised 2002		Preliminary 2003		Forecast 2004	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
	07/2002		07/2003		07/2004	
Area Harvested	630	630	600	432	0	430
Beginning Stocks	856	856	420	420	0	120
Production	2900	2900	3000	2400	0	2400
TOTAL Mkt. Yr. Imports	3161	3161	3400	3700	0	3900
Jul-Jun Imports	3161	3161	3400	3700	0	3900
Jul-Jun Import U.S.	2491	2491	2600	2600	0	3000
TOTAL SUPPLY	6917	6917	6820	6520	0	6420
TOTAL Mkt. Yr. Exports	597	597	500	400	0	300
Jul-Jun Exports	597	597	500	400	0	300
Feed Dom. Consumption	200	200	200	100	0	100
TOTAL Dom. Consumption	5900	5900	5900	5900	0	5900
Ending Stocks	420	420	420	120	0	120
TOTAL DISTRIBUTION	6917	6917	6820	6520	0	6420

Wheat Production Cost Budget State of Sonora (Pesos per Hectare)			
Item	Fall/Winter 02/03	Fall/Winter 03/04	% Change
Land Preparation	1,295.00	1,435.00	10.8
Planting	788.00	643.00	(22.5)
Fertilizing	1,336.00	1,792.00	34.13
Irrigation	1,182.00	1,317.00	11.42
Cultural Practices	150.00	160.00	6.6
Control of Disease	2,147.00	2,167.00	0.9
Harvest	1,076.00	1,215.00	12.9
Other Costs	731.00	822.00	12.44
Total	8,693.00	9,742.00	12.06
Average Yield	6.4	6.5	1.5
Price	1,660.00	1,800.00	8.4
Gross Income	10,624.00	11,700.00	10.1
Total Cost	8,693.00	9,742.00	12.06
Profit	1,931.00	1,958.00	1.3
Cost of Production/MT	1,358.28	1,498.77	10.3

Exchange Rate (March 7, 2004) US \$1.00 = 11.15 pesos

Wheat Production Cost Budget State of Baja California (Pesos per Hectare)			
Item	FALL/WINT ER 02/03	Fall/Winter 03/04	% Change
Land Preparation	1,819.00	1,920.00	5.5
Planting	713.00	727.00	1.9
Fertilizing	1855.00	1,895.00	2.1
Irrigation	1,232.00	1,379.00	11.9
Cultural Practices	N/A	N/A	N/A
Control of Disease	1,068.00	1,088.00	1.9
Harvest	1,212.00	1,346.00	11.0
Other Costs	1,388.00	1,585.00	14.1
Total	8,785.00	9,940.00	13.1
Average Yield	6.5	6.5	6.5
Price	1,660.00	1,800.00	8.4
Gross Income	10,790.00	11,700.00	8.4
Total Cost	8,785.00	9,940.00	13.1
Profit	2,005.00	1,760.00	(13.9)
Cost of Production/MT	1,351.53	1,529.00	13.1

Exchange Rate (March 7, 2004) US \$1.00 = 11.15 pesos

PSD Table	México					
Country:	México					
Commodity:	Rice, Milled			(1000 HA) (1000 MT)		
Market Year Begin	Revised 2002		Preliminary 2003		Forecast 2004	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
	10/2002		10/2003		10/2004	
Area Harvested	57	57	52	58	0	65
Beginning Stocks	203	203	108	108	0	81
Milled Production	133	133	114	168	0	194
Rough Production	199	199	171	253	0	292
Milling Rate(.9999)	6667	6667	6667	6667	0	6667
TOTAL IMPORTS	475	475	625	530	0	575
Jan-Dec Imports	550	550	600	600	0	650
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	811	811	847	806	0	850
TOTAL Exports	3	3	0	0	0	0
Jan-Dec Exports	3	3	0	0	0	0
TOTAL Dom. Consumption	700	700	725	725	0	800
Ending Stocks	108	108	122	81	0	50
TOTAL DISTRIBUTION	811	811	847	806	0	850

PSD Table	México					
Country	México					
Commodity	Corn (1000 HA) (1000 MT)					
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2002		10/2003		10/2004	
Area Harvested	7030	7030	7100	7670	0	7650
Beginning Stocks	3396	3396	3253	3180	3003	3973
Production	19280	19280	19000	20300	0	20300
TOTAL Mkt. Yr. Imports	5284	5211	6500	6200	0	6200
Oct-Sep Imports	5284	5211	6500	6200	0	6200
Oct-Sep Import U.S.	5284	5211	0	6200	0	6200
TOTAL SUPPLY	27960	27887	28753	29680	3003	30473
TOTAL Mkt. Yr. Exports	7	7	50	7	0	10
Oct-Sep Exports	7	7	50	7	0	10
Feed Dom. Consumption	9500	9500	10500	10500	0	10800
TOTAL Dom. Consumption	24700	24700	25700	25700	0	26470
Ending Stocks	3253	3180	3003	3973	0	3993
TOTAL DISTRIBUTION	27960	27887	28753	29680	0	30473

Corn Production Cost Budget State of Jalisco (Pesos per Hectare)				
Item	2000 Spring/Summer Crop	2001 Spring/Summer Crop	2002 Spring/Summer Crop	2003 Spring/Summer Crop
Land Preparation	480	275	900	500
Planting	460	1,140	1,170	1,13
Fertilizing	980	1,025	1,112	2,90
Cultural Practices	660	450	1,120	680
Control of Diseases	500	515	240	830
Harvest	660	822	600	710
Miscellaneous	300	740	N/A	N/A
TOTAL	4,040	4,967	5,142	6,823

N/A Not Available

Exchange Rate (March 3, 2001) US \$1.00 = 9.65 pesos

Exchange Rate (Feb. 26, 2002) US \$1.00 = 9.20 pesos

Exchange Rate (March 7, 2003) US \$1.00 = 11.23 pesos

Exchange Rate (Feb 24, 2004) US \$1.00 = 11.15 pesos

Source: SAGARPA

PSD Table	México					
Country	México					
Commodity	Sorghum				(1000 HA)(1000 MT)	
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2002		10/2003		10/2004	
Area Harvested	1850	1840	1700	1900	0	1800
Beginning Stocks	779	779	611	976	511	1276
Production	6338	6338	5600	6400	0	6300
TOTAL Mkt. Yr. Imports	3394	3759	3100	2900	0	3000
Oct-Sep Imports	3394	3759	3100	2900	0	3000
Oct-Sep Import U.S.	3329	3759	0	2900	0	3000
TOTAL SUPPLY	10511	10876	9311	10276	511	10576
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	9800	9800	8700	8900	0	9200
TOTAL Dom. Consumption	9900	9900	8800	9000	0	9300
Ending Stocks	611	976	511	1276	0	1276
TOTAL DISTRIBUTION	10511	10876	9311	10276	0	10576

Sorghum Production Cost Budget State of Jalisco (Pesos per Hectare)		
Item	2002 Spring/Summer Crop	2003 Spring/Summer Crop
Land Preparation	1,500	500
Planting	1,100	1,088
Fertilizing	1,088	2,098
Cultural Practices	870	900
Control of Diseases	590	1,356
Harvest	550	710
Miscellaneous	N/A	N/A
TOTAL	5,698	6,651

N/A Not Available

Exchange Rate (March 7, 2003) US \$1.00 = 11.23 pesos

Exchange Rate (Feb 24, 2004) US \$1.00 = 11.15 pesos

Source: SAGARPA

PSD Table	Mexico					
Country	Mexico					
Commodity	Beans (1000 HA) (1000 MT)					
	2002 Revised		2003 Estimate		2004 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	10/2002		10/2003		10/2004	
Area Harvested	2060	2060	1990	1780	0	1780
Beginning Stocks	243	219	575	604	765	664
Production	1474	1527	1430	1300	0	1300
TOTAL Mkt. Yr. Imports	94	94	40	50	0	50
Jul-Jun Imports	94	94	40	50	0	50
Jul-Jun Import U.S.	94	90	38	48	0	48
TOTAL SUPPLY	1811	1840	2045	1954	765	2014
TOTAL Mkt. Yr. Exports	16	16	30	30	0	30
Jul-Jun Exports	16	16	30	30	0	30
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1220	1220	1250	1260	0	1290
Ending Stocks	575	604	765	664	0	694
TOTAL DISTRIBUTION	1811	1840	2045	1954	0	2014

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING**WHEAT****Production**

For MY 2004/05, (July/June) total Mexican wheat production is forecast to remain unchanged from the previous year's revised estimate of 2.4 MMT, due to a drop in planted area and a severe water shortage for irrigated crops, caused by the drought-induced low water reservoir levels in the states of Sonora and Sinaloa. Total Mexican wheat production in MY 2003/04 is revised downward to 2.4 MMT, a 25-percent decrease from the previous estimate, due to limited water availability for irrigated crops.

The wheat farmers of Sonora, with the assistance of the GOM, are expecting to have a reference or negotiated price for MY 2004/05, of about \$1,800 pesos (USD\$164) per metric ton, depending on the variety and quality of the wheat.

Overall harvested area for wheat in MY 2004/05 is forecast to decrease by about 0.4 percent throughout MY 2003/04 to around 430,000 hectares. This reflects a shift out of wheat production to vegetables and citrus fruits in Sonora and Sinaloa due to insufficient water for wheat crops.

Consumption

Consumption for MY 2004/05 is forecast to remain unchanged from the previous year's estimates of around 5.90 MMT, due to steady consumption patterns of consumers. Much for the same reason as above, consumption for MY2003/04 remains unchanged from the previous estimate.

Trade

Imports are forecast to increase in MY 2004/05 to 3.9 MMT because of the continued decline in the production of bread quality wheat. Total wheat imports in MY 2003/04 have increased to 3.7 MMT because of the decrease in domestic production caused by water shortage and a smaller production area.

In MY 2004/05, exports of durum wheat are forecast to fall to 300,000 MT, due to expected lower production. In MY 2003/04, exports have been revised downward, also due to lower domestic production.

Stocks

Ending stocks are forecast to be unchanged from the previous year's revised estimate at around 120,000 MT for MY 2004/05. Supplies have been tight because of the decline in the production of bread quality wheat. Ending stocks in MY 2003/04 are revised downward to 120,000 MT, as planted area and production decreased.

Policy

As of January 1, 2003, and in keeping with the NAFTA tariff phase-out schedule, there are no import duties on Mexican imports of U.S. wheat. However, imports of U.S. wheat from the states of California, Oklahoma, New Mexico, and Texas are not allowed into Mexico, due to Mexican phytosanitary concerns about karnal bunt. Similarly, there are no duties on Mexican wheat exports to the United States because of the NAFTA tariff phase-out; however, Mexican

wheat has not been allowed into the United States, except from the Mexicali valley, because of U.S. phytosanitary concerns about karnal bunt.

Marketing

U.S. prices need to stay competitive in order to maintain current market share. In order to further stimulate wheat consumption in Mexico, market development activities should focus on consumer use of wheat products (bread, cookies, etc.). Also, in order to avoid trade disruptions, it is important to provide information to government personnel in charge of regulatory functions so that grades, standards, and phytosanitary regulations do not impede grain trade between the two countries.

RICE

Production

Rice production for MY 2004/05 is forecast at 194,000 mt (milled basis), an increase of 15.4 percent from the previous year's revised estimate of 168,000 mt, due to expected incentives from the federal and state government. For MY 2003/04, production is revised upward to 168,000 MT (milled basis), due to increased area planted and higher yields from improved inputs. Additionally, domestic production costs, subsidized with government support, and higher prices of rice imports, are the primary factors behind the increase in production.

For MY 2004/05, area harvested is forecast at 65,000 ha, an increase of 12 percent from the previous year, due to higher-priced imports from the United States. MY 2003/04 area harvested is revised upward to 58,000 hectares, an increase of 11.5 percent from the previous estimate, due to higher-priced imports and timely government economic assistance.

Consumption

In MY 2004/05, rice consumption is forecast at 800,000 mt, an increase of 10 percent from last year, due to marketing efforts of the U.S. Rice Federation, and other groups, and because of affordable prices for this food staple for the majority of the lower income population.

Trade

MY 2004/05 rice imports are forecast at 575,000 mt, an increase of 8.5 percent, primarily as a result of the drop in production in MY 2003/04 and lower beginning stocks. Imports for MY 2003/04 are revised downward from our previous estimate, due to improved production caused by higher-priced imports thus allowing domestic rice to be more competitive with the economic assistance from federal and state government.

Stocks

Ending stocks are forecast to continue downward for MY 2004/05 to 50,000 MT. However, due to insufficient domestic production to meet current demand, mills will continue to look to imports for supplies, especially during the traditionally short supply months of April, May, June, and July, or the months between Mexico's two rice crops. Ending stocks for MY 2003/04 are estimated at 81,000 mt, a decrease of 34 percent from the previous MY 2003/04 estimate, due to decreased imports and insufficient domestic production.

Policy

As of January 1, 2003, and in keeping with the NAFTA tariff phase-out schedule, there are no import duties on imports of rough and milled rice from Mexico's trading partners, Canada and the United States. However, there continues to be an antidumping duty applied as follows:

- A. For the imports from the companies Farmers Rice Milling Company and Riceland Foods, Inc.: 0 (zero) percent.
- B. For the imports from the company The Rice Company: 3.93 percent.
- C. For the imports originating from other companies that export from the United States of America to Mexico: 10.18 percent

No duty for all long-grain white rice and the mixtures of long-grain white rice with other types of rice originating from other countries as long as country-of-origin can be proved. For further details, see MX 2092.

Marketing

Marketing activities should continue to center upon branded promotions and other avenues for creating niche markets for U.S. specialty and quality rice. In addition, with the overall low level of consumption, providing nutritional information on rice could help encourage more healthy diets and increase rice consumption in lower income areas of the country.

CORN

Production

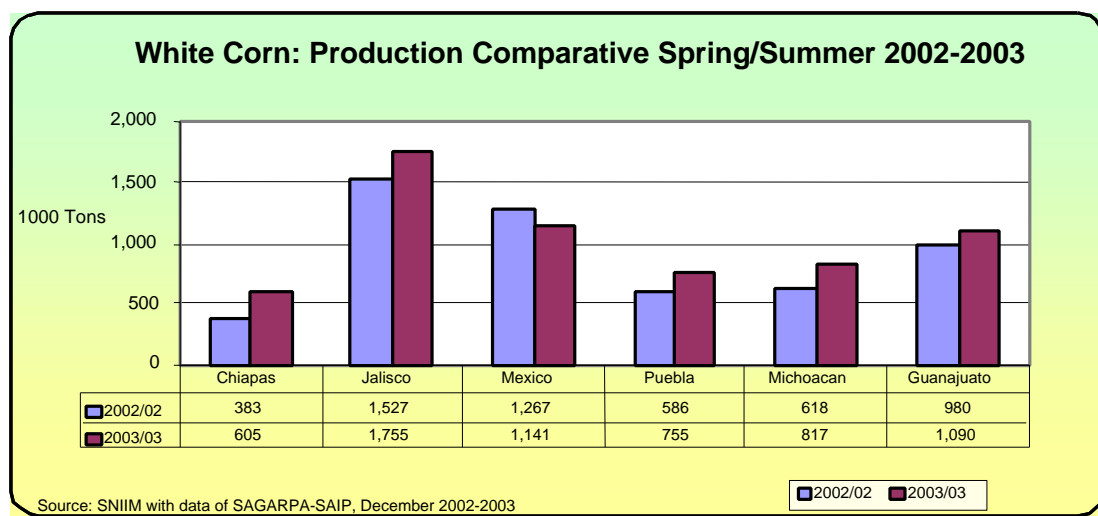
Assuming normal weather conditions, MY 2004/05 (Oct-Sept) corn production is forecast to remain unchanged from the record MY 2003/04 crop at 20.3 MMT. The factor most affecting total corn production in 2004/05 will continue to be weather, as most of the producing areas are dependent upon rainfall. Traders and buyers indicate that the price ratio between corn and sorghum is expected to continue to be more favorable for corn during MY 2004/05, which should encourage continued high levels of corn production. Industry sources indicate that the price of sorghum must be about 85 percent of the price of corn for the poultry industry – the primary industrial consumer of corn and sorghum – to switch to buying sorghum; industry sources state that corn is generally preferred over sorghum for poultry feed because of its better nutritional value. MY 2003/04 corn production is estimated at 20.3 MMT, an increase of 5.3 percent, due to good weather. MY 2002/03 corn production remains unchanged.

In Mexico two crops of corn are grown annually: a spring/summer cycle and a fall/winter cycle. The five states accounting for approximately 55 percent of the spring/summer corn production are Jalisco, Mexico, Michoacan, Chiapas, and Puebla. Between 90-95 percent of total annual Mexican corn production is grown in the spring/summer cycle, the harvest of which takes place from October through December. Since 90 percent of corn produced in spring/summer cycle is rain fed, the rains starting in June are the major source of water. Production under the fall/winter cycle is conducted primarily in the states of Sonora, Sinaloa and Chihuahua. The fall/winter crop is harvested in March through September. Forty percent of this is irrigated.

According to preliminary information, production of corn in the main producing states increased by over 10 percent in 2003 spring/summer crop compared with the same crop a

year earlier. The main part of the increase is attributable to the favorable weather conditions and timely rains across the main producing areas. In Jalisco, for example, preliminary information indicates that 2003 spring/summer corn production reached 3.1 MMT, 5 percent higher than the 2002 spring/summer crop, which was considered a record crop at that time. The favorable weather conditions and timely and above-average rains mainly during June to September, explain this increase. As a result, average yields for 2003's spring/summer crop in Jalisco have increased approximately 12.5 percent, from 5.17 MT/ha. compared to 4.6 MT/ha. a year ago. Approximately 95 percent of Jalisco's crop area is non-irrigated.

At the same time, 2003 spring/summer corn production in Puebla increased sharply to 1.123 MMT, due to timely rains. As a result, corn planted area damaged by the dry weather was 40.5 percent lower in the 2003 spring/summer crop that a year earlier. Similarly, in Chiapas precipitation amounts were fairly normal and well distributed in the spring corn areas. Rains during the harvest season have been below normal, which is ideal for harvesting. Among the main corn producing states, only the state of Mexico registered a decline of 20 percent in its 2003 spring/summer crop production compared with the same crop a year before. The main part of the decline is attributable to the 22,200 ha damaged by unfavorable weather in the corn production areas, thereby reducing the yields. Below is a graph illustrating the difference in 2003/2002 spring/summer crop production in the main producing states, with data as of December 31 of each year:



Total production for the 2003/04 fall/winter corn crop is estimated at 4.5 MMT, an increase of 12.5 percent over the 2002/03 fall/winter crop, due to abundant water reservoir levels, good rains, increased planted area, and higher yields. Sinaloa's planted area, for example, increased from 295,000 hectares in the 2002/03 fall/winter crop to approximately 424,000 hectares during the 2003/04 fall/winter crop. Sinaloa is the principal white corn producing state, accounting for approximately 80 percent of the total fall/winter crop; it is produced largely under irrigation and harvest generally occurs from May to June.

National average corn yields are forecast to remain unchanged at approximately 2.65 metric tons per hectare for MY 2004/05. Yields continue to vary significantly among Mexico's various regions, depending in large part on the level of technology used.

The general quality of the 2003 spring/summer is reported to be very good, due to excellent weather conditions in the main producing areas. Similarly, the quality of corn grown in the

north for the fall/winter season is expected to be above average, due to normal weather conditions.

According to official sources, in CY 2003, the rate of increase in the cost of farm input prices was approximately 33 percent higher than the previous year in Jalisco. The input costs for corn production in this state are detailed in Section II (statistical tables). The cost of production, however, does not include indirect costs such as insurance, credit and technical assistance. Production costs vary significantly among Mexico's various regions, depending in large part on the level of technology used.

Production Policy

On January 26, 2004, SAGARPA announced in the *Diario Oficial* a support for the storage cost ("pignoracion") of white corn in Jalisco. The supports will be applied only for the 2003 spring/summer crop (harvest in 2002/03 fall/winter). The objective is to provide monthly payments per ton during five months of 2004: first month (46.99 pesos/MT; USD\$4.27/MT); second month (78.97 pesos/MT; USD\$7.18/MT); third month (110.96 pesos/MT; USD\$10.09/MT); fourth month (142.94 pesos/MT; USD\$12.99/MT) and fifth month (174.93 pesos/MT; USD\$15.90/MT). The total volume to be supported by this program is 150,000 MT. The supports are managed by ASERCA, which is SAGARPA's decentralized administrative body providing commercial support to farmers. Also on January 26, 2004, SAGARPA announced a support for the transportation costs of corn in Chiapas. The total volume to be subsidized is 60,000 MT for spring/summer 2003 crop cycle, with a payment of 170 pesos per ton (USD\$15.45/ton).

As a part of the Target Price Program (see MX 3098) on December 15, 2004, SAGARPA also announced in Mexico's *Diario Oficial*, a support for the corn and rice producers in several states for 2003 spring/summer 2003 crop cycle. The breakdown of support per metric tons (called "Complementary Income Support") and the total volume to be supported by state are as follows:

Product	State	Total Volume Subsidied (1000 MT)	Payment per Metric Ton (Pesos) *
White Corn	Aguascalientes	25,000	200
	Campeche	80,000	200
	Chiapas	410,000	250
	Chihuahua	150,000	150
	Colima	15,000	150
	Durango	50,000	200
	Guanajuato	850,000	150
	Jalisco	1,300,000	150
	Michoacan	400,000	150
	Nayarit	50,000	150
	Puebla	50,000	150
	Queretaro	31,500	150
	Quintana Roo	2,000	250
	Tabasco	5,000	200

Product	State	Total Volume Subsidied (1000 MT)	Payment per Metric Ton (Pesos) *
	Tamaulipas	120,000	200
	Tlaxcala	30,000	150
	Veracruz	50,000	150
	Yucatan	8,000	200
	Sub-Total White Corn	3,626,500	
Yellow Corn	Chiapas	40,000	270
	Chihuahua	300,000	275
	Jalisco	50,000	200
	Puebla	30,000	200
	Quintana Roo	1,000	250
	San Luis Potosi	3,000	250
	Tlaxcala	3,000	200
	Veracruz	15,000	200
	Sub-Total Yellow Corn	442,000	
Rice	Campeche	60,000	500
	Colima	15,000	500
	Jalisco	5,000	500
	Mexico	500	500
	Michoacan	23,000	500
	Morelos	17,000	500
	Nayarit	17,000	500
	Oaxaca	4,000	500
	Puebla	400	500
	Quintana Roo	4,000	500
	Tabasco	30,000	500
	Tamaulipas	3,000	500
	Veracruz	57,000	500
	Sub-Total Rice	235,900	
Sorghum	Chiapas	20,000	120
	Sub-Total Sorghum	20,000	

* Exchange rate is approximately USD\$1 = MXN\$11

On March 1, 2004, SAGARPA announced it will pay producers of corn and other crops 935 pesos (USD\$85) per hectare during the 2004/04 spring/summer and the 2004/05 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3.3

percent greater than what SAGARPA paid during the same period in 2003/04. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,120 pesos per hectare.

According to an official source, SAGARPA is not going to encourage forward contract purchases between farmers and yellow corn buyers for the 2004 spring/summer crop cycle in Jalisco, due to the poor results last year. In an attempt to influence production patterns of yellow corn in the 2003 spring/summer crop cycle, SAGARPA officials agreed with Jalisco growers to produce approximately 250,000 MT of yellow corn. To do this, SAGARPA encouraged starch manufacturers to enter into forward contract purchases. However, just 130,000 MT were produced, of which the starch industry purchased approximately 60,000 MT and the feed industry purchased the rest.

Consumption

Total MY 2004/05 consumption is expected to increase approximately 3 percent, which exceeds the population growth rate (1.32 percent), due to the recovery in the purchasing power as well as the strong growth feed demand. This expected increase in total corn consumption reflects an increase in both human consumption and feed consumption. Domestically produced corn has historically been almost exclusively a food grain rather than a feed grain. White corn is a staple in the Mexican diet, with per capita consumption of about 66 kilograms per year in the urban areas.

For MY 2004/05 corn feed consumption is forecast to reach 10.8 MMT. The Mexican feed millers' association expects that feed consumption will increase approximately 3 percent in MY 2004, due to strong demand from the livestock and poultry industries. Poultry producers, for example, have continued to prefer yellow corn to the domestically produced white corn because of better nutritional value and the color it gives to the birds' skins. The majority of consumption for feed should come from imports in MY 2003/04 and 2004/05, through Mexico's NAFTA TRQ (cupo). Other important end-users of yellow corn include the swine and wet-milling industries. The swine sector is the second largest feed grain consumer with almost 4.4 MMT.

It should be noted that the feed consumption figures do not include the consumption of imported cracked corn by the livestock sector. As the corn TRQ allocation process has become a very sensitive political subject, this has resulted in more government delays in the allocation and, sometimes, denial of import permits. Consequently, some feed importers have been increasing their imports of cracked corn – an item that falls into a separate H.T.S. category and is neither subject to the NAFTA TRQ nor the politically sensitive "cupo" allocation process.

Trade

For MY 2004/05, corn imports are forecast to remain unchanged at approximately 6.2 MMT because of the expected high level of domestic production and the Mexican feed industry's growing preference for cracked imports. According to the Secretariat of Economy (SE), Mexico imported 2.6 MMT of cracked corn during the first eleven months of 2003, 42 percent higher than the same period a year earlier. Private sources foresee this trend continuing in CY 2004, albeit at lower rate, as some big feed importers have complained about the bad quality of cracked corn and its, sometimes, unappealing prices.

MY 2003/04 import estimates have been revised downward because of increased domestic production. Given the importance that timely rains play in Mexican agricultural production, wide fluctuations can be expected in the volume of year-to-year imports. Similarly, import

estimates for MY 2002 as well as export estimates for MY 2003 have been revised downward, reflecting official data from the Secretariat of Economy (SE) and other.

It should be noted that the MY 2004/05 import forecast assumes that the GOM will not enforce any regulation against transgenic corn. Controversy surrounding transgenic corn and biotechnology has risen and fallen in the last year, as anti-biotech groups have lobbied Congress – so far unsuccessfully -- to include trade-restrictive measures in a national biosafety bill. Mexican consumers appear to be unaware or disinterested in the biotechnology debate and its potential trade implications. In November 2004, the GOM decided to suspend the moratorium, in place since 1998, on planting transgenic corn for experimental purposes. SAGARPA sources indicate that this decision was made after a consensus was reached among the members of the Inter-Secretarial Commission and Genetically Modified Organisms (CIBIOGEM); however the moratorium on transgenic corn for commercial purposes still remains in effect. As the original moratorium was a “de facto” one, lifting it required no official notification procedure (see MX3152).

According to SE, Mexico issued permits for approximately 7.0 MMT of corn in calendar year 2004 (see table below). However, it should be noted that the total SE allocation of these permits does not necessarily match with Mexico’s final corn import data for CY 2003, due to the fact that Mexican importers did not use part of these allocations.

Corn import Quota Allocations (TRQ) for CY 2003 Under NAFTA	TRQ	OVER-TRQ	TOTAL	
	Allocation	Allocation	2003	%
1000 Metric Tons				
Tortilla Makers (White corn)	6.643	0.00	6.642	0.09
Tortilla Makers (Yellow corn)	8.762	0.00	8.762	0.13
Corn Flour Millers (Human consumption)	297.035	0.00	297.034	4.24
Snack food	16.357	9.291	25.648	0.37
Breakfast Cereal (Human Consumption)	85.023	29.034	114.057	1.63
Starch Industry	1,111.182	746.653	1,857.835	26.52
Manufacturers Livestock (feeders, (growers & feed millers)	1,706.711	2,988.340	4,695.051	67.02
Government	0.00	0.00	0.00	0.00
Total	3,231.712	3,773.319	7,005.031	100.00

Note: The minimum Tariff Rate Quota for U.S. corn under NAFTA was 3.262 MMT for 2003.
Source: Secretariat of Economy

The structure of the 2004 NAFTA TRQ (3.360 MMT for the United States) will continue as in 2003 with direct allocations to importers and industries by SE. However, the GOM again announced new changes in the policy to allocate cupos, as reflected in SE’s December 31, 2003, announcement about the 2004-2007 U.S. import quota and the new administration procedures for importers (see MX 4002 and MX 4003). According to industry sources, the publication of these official rules has resulted in more transparency for industry and importers. The feed and starch industries, for example, believe that the new rules will allow them to have a better planning process for their acquisitions and to be more transparent.

Stocks

Mexico's ending stock position is forecast at 3.9 MMT in MY 2004/05, a very slight increase over the MY 2003/04 revised ending stock estimate, due to expectations of continued good

corn production. The MY 2003/04 ending stock estimate has been revised upward, due to higher than-previously-estimated production.

Policy

Since NAFTA was implemented on January 1, 1994, the over-quota bound tariff on corn has been reduced from 206.4 percent to 72.6 percent and the TRQ has increased from 2.5 MT to 3.360 MMT for 2004. The United States has eliminated the 0.2 cents per kilogram tariff on imported corn from Mexico. At the same time, Mexico has also converted its import licensing system to a transitional tariff-rate quota for the U.S. and Canada. The TRQ will remain in effect until 2008, with a 3 percent annual increase in quantity. Over the first six years of the agreement, an aggregate 24 percent of the tariff was eliminated. The remainder will be phased-out by 2008.

Despite the agreed-upon NAFTA bound tariffs for white and yellow corn, the Mexican Congress has traditionally voted annually on what the applied tariffs will be for corn. In past years, Congress essentially agreed with the Executive Branch's recommendation of low applied tariffs on out-of-quota corn. Past applied tariffs approved by Congress have been approximately 1-2 percent for yellow corn; and 2-3 percent for white corn. However, in 2004, for white corn, Congress approved the 2004 applied tariff for white corn at 72.6 percent – the same as the 2004 NAFTA bound tariff – but a marked departure from past practice, as it marks a significant difference between the current bound and the past applied tariffs. Nevertheless, this tariff is NAFTA consistent and will apply to white corn, even in the case of a shortage (see MX4003). For 2004 duty-free in-quota amounts for white and yellow corn, please see MX4002.

In the case of yellow corn, which comprises 80-90 percent of all U.S. corn imports into Mexico, Congress decided to leave the determination of the over-quota amount to the Ministries of Economy and Agriculture – two ministries which have traditionally supported very low applied tariffs for corn and have usually administered the import permit (*cupo*) allocation process based on national supply conditions and the marketing of domestic corn (see MX4003).

The United States will remain the main supplier of corn to Mexico for the foreseeable future due to NAFTA. As credit continues to be tight in Mexico, credit guarantee programs such as GSM-102 will remain useful tools to promote U.S. corn in Mexico.

SORGHUM

Production

MY 2004/05 sorghum production is forecast at 6.3 MMT, essentially unchanged from MY 2003/04, due to continued favorable weather and strong demand for feed grains. Reportedly, poultry and hog producers have been increasing demand for sorghum as a result of the ongoing economic recovery. Both sectors are the main consumers of sorghum in Mexico. Sorghum production estimate for MY 2003/04 (Oct-Sep) has been sharply raised to 6.4 MMT, due to increased plantings and favorable weather conditions during the spring/summer crop (harvested in fall). For example, as a result of above average rainfall, yields increased in the "Bajio" region (comprised of Guanajuato, Jalisco and Michoacan), where the bulk of the spring/season is produced. Crop quality is reportedly good. Water availability is reported to be adequate in Tamaulipas, which may result in increased production, when compared to the previous year.

The overall yield for the MY 2003/04 sorghum crop in Mexico is expected to reach approximately 3.3 metric tons per hectare. Yields are forecast to be similar for MY 2004/05, assuming normal weather conditions. The 2003/04 fall/winter harvest was reported as generally being of good quality, due to timely precipitation in the Bajio.

On March 1, 2004, SAGARPA announced it will pay producers of sorghum and other crops 935 pesos (USD\$85) per hectare during the 2004/04 spring/summer and the 2004/05 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3.3 percent greater than what SAGARPA paid during the same period in 2003/04. The announcement also indicates that farmers with producing areas between one and five hectares will receive 1,120 pesos (USD\$102) per hectare, or 8.7 percent more than SAGARPA paid last year.

Consumption

Projected sorghum consumption for MY 2004/05 is expected to increase by 300,000 MT to reach 9.3 MMT, due to increased supplies and expected lower prices. The poultry sector's consumption outlook, for example, continues to be very optimistic for MY 2004 (see MX4013). The poultry sector is the major consumer of sorghum.

Trade

MY 2004/05 imports of sorghum are forecast to increase slightly to 3.0 MMT, due to stronger demand for feed. MY 2003/04 sorghum imports are estimated at 2.9 MMT, a decrease of 23 percent from MY 2002/03, due to higher-than-expected domestic production. The sorghum import estimate for MY 2002/03 has been revised upward based on World Trade Atlas data. Private feed millers are keeping approximately 6 weeks of feed in stock.

Stocks

Ending stocks for MY 2004/05 are forecast to remain unchanged compared with a year before. The estimates for MY 2002/03 and 2003/04 ending stocks have been raised, based on higher-than-expected import volumes and production, respectively.

BEANS, DRY EDIBLE

Production

For MY 2004/05, normal weather conditions, combined with the ongoing economic improvement, are expected to keep production to approximately 1.3 MMT, similar to the revised estimated production of MY 2003/04. The production estimates for MY 2003/04 as well as the harvested area estimates were revised downward, reflecting the most recent SAGARPA data, which includes an update for the 2003 spring/summer crop cycle and a preliminary estimate for the 2003/04 fall/winter crop cycle. Despite this adjustment, the MY 2003/04 production estimate is still higher than the average production over the last few years of 1.2 MMT.

Sources indicate that high rainfall, optimum planting dates, and excellent growing conditions made the 2003 spring/summer season one of the best in recent years. The 2003 spring/summer crop is expected to account for approximately 81 percent of total MY 2003/04 production, with the remainder coming from the fall/winter crop (see MX3167). For MY 2002/03, production estimate was increased to 1.527 MMT to reflect final Mexican government data.

For the 2003/04 fall/winter-crop cycle, Nayarit reports a dry bean planted area of 66,380 ha out of which approximately 44 percent are irrigated and the rest are rain fed areas. The expected production of this crop cycle is 87,988 MT, out of which 60 percent is Jamapa Black variety. The rest of the production will be comprised of Azufrados, Mayocobas, Marsella, and other clear and pink varieties.

In Sinaloa, SAGARPA reports a total bean planted surface of 56,314 ha, of which 89 percent is irrigated and the remainder is not. The expected production for the 2003/04 fall/winter crops is 87,000 MT, out of which less than 10 percent is comprised of black bean varieties, with the Azufrados, Peruanos and Mayocobas varieties accounting for the rest. The harvesting season, which started in mid-January, must cover approximately 11,000 ha. According to SAGARPA officials, production obtained as of January 31, 2004 was 9,650 MT; the average yield was 0.860 MT/ha.

PROCAMPO payments for the 2004 spring/summer and 2004/05 fall/winter-crop cycles will be 935 pesos/ha (USD\$85/ha). Dry bean growers with producing areas of between one and five hectares will receive 1,120 pesos (USD\$120) per hectare (See Corn Production Policy).

Weather continues to be the predominant production factor given that over 75 percent of Mexico's bean area is unirrigated. Weather during the 2003 spring/summer cycle harvest period (Oct.- Dec.) was favorably dry for harvesting and allowed yields similar to those of the same season a year before, which was considered a record harvest. The overall yield for the MY 2004/05 dry bean crop in Mexico is expected to reach about 0.710 MT/ha. -- practically, unchanged from the MY 2003/04 average yield – assuming normal rainfall and weather conditions.

For the 2003 spring/summer crop cycle, the quality of dry beans in Zacatecas was good, with many big and mature beans. Similarly, for the 2003/04-fall/winter-crop cycle in Nayarit, the quality is expected to be good, due to favorable weather conditions.

Consumption

The forecast for dry bean consumption in MY 2003/04 is 1.290 MMT, an increase of approximately 2.9 percent, primarily reflecting population growth and more affordable prices.

Per capita dry bean consumption in Mexico continues to be one of the highest in the world, at approximately 13/kg per year. The MY 2003/04 consumption estimate was revised upward to 1.26 MMT, due in part to the decreasing purchasing power of middle-income consumers that switched from meats to dry beans and other relatively less expensive protein sources.

Trade

Imports are forecast to remain unchanged to 60,000 MT for MY 2004/05, based on large carryover stocks. Carryover stocks are expected to remain high in response to the good Mexican bean crop of MY 2003/04 and correspondingly affordable prices. MY 2003/04 import estimates have been revised upward, according to preliminary SE official data and private sources.

Stocks

For MY 2004/05, ending stocks are forecast to increase slightly to 694,000 MT, due to expectations of continued good production. For MY 2003/04 ending stocks have been revised downward as a result of slightly lower-than-expected production. The ending stock estimate for MY 2002/03 has been increased because of higher-than-expected production.

Policy

On January 1, 1994, under the NAFTA, Mexico converted its import-licensing regime for the United States and Canada to a transitional tariff-rate quota. The TRQ grows at a 3 percent annual compounded rate over the 15-year transition period starting in 1994 and ending in 2008. For the United States in 2004, duty-free access to the Mexican market is set at 67,196 MT. The over-quota bound/applied tariff is 46.9 percent for 2004. This is down from the 2003 NAFTA bound/applied tariff of 58.7 percent. Over the first 6 years of the agreement, an aggregate 24 percent of this over-quota tariff was eliminated. The remainder of the tariff will be phased out over the rest of the transition period.

The federal government reserves the right to buy the domestic bean crop (see MX3143) at established prices, in alliance with the private sector. In cases of emergency, in which additional beans above the quota need to be imported, the Ministries of Economy and Agriculture, in coordination with producer organizations and industrial consumers, will establish criteria certifying the supply shortage and the allocation conditions for out-of-quota dry beans. In the event of such a shortage, the Executive Branch would have the authority to establish lower applied tariffs and volume limits to allow in the extra dry beans needed (see MX4003 for further details).

During 2004, Canada has duty-free access for 2,016 MT of dry beans. The structure of the over-quota tariff phase-out and growth in the quota amount is the same as for the United States. The United States eliminated its tariff on imported dry beans from Mexico as of January 1, 1994. The immediate phase-out of the U.S. tariff on dry bean imports has had little impact due to the fact that the volume of Mexican dry bean imports into the United States is relatively low.