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Report Highlights:

As a result of the economic slowdown, Mexico's total imports of grain and feed will likely increase only marginally in MY2002/03. Production of sorghum and dry beans is expected to increase slightly, while corn is expected to decline approximately 2 percent from last year's bumper harvest.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Mexico [MX1], MX

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SECTION I. SITUATION AND OUTLOOK

Economic Outlook:

The outlook for the overall Mexican economy in CY 2002 continues to be pessimistic as a result of the recession in the United States, which continues to spill over into Mexico. Most private economists agree with the Government of Mexico's (GOM) modest projection of real 1.7 percent GDP growth for 2002, a 0.3 percent decrease from CY 2001. The growth of the Mexican economy has slowed considerably compared to CY 2000, which had a 7.1 percent growth rate. Private economists estimate that this year's economic performance could have negative impacts on the consumer purchasing power, thereby decreasing domestic demand for almost all major grain imports. Inflation in CY 2002 may be slightly lower than it was in CY 2001. The inflation rate for CY 2001 was 5.2 percent and forecasters are predicting a 4.5 percent inflation rate for CY 2002. Despite these negative indicators, it is the first time that Mexico is weathering a global economic recession while maintaining macroeconomic stability. Recently, Mexico was even granted investment grade status by Standard and Poors, which allows pension fund companies to invest in Mexico.

Grain and Feed Situation and Outlook:

Wheat: Total Mexican wheat production for MY 2002/03 (Jul-Jun) is forecast downward to 3.20 million metric tons (MMT) because of limited water supplies in the principle producing state of Sonora, lower yields and decreased area planted. Imports for MY 2002/03 are forecast to increase from the previous year's estimate, reaching 3.20 MMT, due to an expected increase in consumption and a drop in domestic production. The MY 2001/02 import estimate has been revised downward from our previous estimate, due to an increase in domestic production and a steady consumption rate. The MY 2000/01 wheat production estimate has been revised upward to reflect final government data.

Rice: Mexican rice production for MY 2002/03 (Oct-Sep) is forecast to slightly increase from the previous year's revised estimate to 195,000 MT (milled), due to expected federal and state government assistance programs. For MY 2001/02, rice production has been revised downward, due to less area planted and lower yields from reduced inputs. The production estimate for MY 2000/01 has been decreased to reflect final government data. Imports in MY 2002/03 are forecast upward based on expected consumption increase. The import estimate for MY 2000/01 is revised upward to reflect final government data.

Corn: Mexican corn production for MY 2002/03 (Oct-Sep) is forecast at 18.7 MMT. The main reason for this slight decline is due to a smaller harvested area. The MY 2001/02 harvested area and production estimates were increased as a result of good weather conditions. The production estimate for MY 2000/01 reflects the latest official Mexican government data. The GOM plans to provide Mexican farmers incentives to switch production from white corn to crops that Mexico is not self sufficient in producing (i.e., yellow corn, sorghum and oilseeds.) For the current MY 2001/02, the import estimate remains unchanged at 6.0 MMT, while the import estimate for MY 2000/01 has been increased to 5.9 MMT based on official U.S. Census Trade Data. The 2002 import quota for U.S. corn is 3.167 MMT and will be administered as before with the government allocating "cupos" (import permits) to importers and industry. The GOM, however, has announced some changes in the policy to allocate "cupos." One such change, for example, will include a more active role for the Agriculture Ministry (SAGARPA) in controlling the distribution of import quotas (cupos) in CY 2002.

Sorghum: The MY 2002/03 (Oct-Sept) production is forecast to remain unchanged at 6.8 MMT. The production estimate for MY 2001/02 has been increased to 6.881 MMT based on recent government figures. The MY 2000/01 sorghum production estimate has been decreased to 5.6 MMT in order to reflect official government data. The MY 2002/03 imports are forecast to remain robust at 5.0 MMT, due to strong demand from the poultry sector.

Dry Edible Beans: The MY 2001/02 production estimate has been increased based on good weather conditions and timely rains. Imports of dry edible beans in MY 2002/03 (Oct-Sept) are forecast at approximately 80,000 MT based on increased domestic production. Dry edible bean consumption is expected to increase approximately 6 percent from last year. This higher consumption figure takes population growth into account and assumes that consumers will replace inexpensive dry beans for more expensive poultry and red meat, due to a decrease in their purchasing power.

Marketing: The primary mission of the U.S. Agricultural Trade Office (ATO) in Mexico City is to assist in the market development and promotion of U.S. food and agricultural products in the Mexican market. There are a wide variety of activities and services that the ATO, along with other private sector representatives called "Cooperators," offer to help develop U.S. agricultural interests in Mexico. The Cooperator groups that represent the U.S. food and feed grains industry are: U.S. Wheat Associates, the USA Rice Federation, the U.S. Grains Council, and the National Dry Bean Council. These organizations can provide information on all aspects of U.S. grain trading and use, including sourcing, purchasing and feeding, as well as technical help in the areas of end-use, processing and technology, and information on U.S. suppliers.

The offices of U.S. Wheat Associates and the U.S. Grains Council are located at the ATO at Jaime Balmes 8-201, Col. Polanco, 11510 Mexico, D.F. They can be reached by telephone at 011-52-55-5282-0973 & 5281-5660, or by fax at 011-52-55--5282-0968. Contact with the USA Rice Federation and the National Dry Bean Council can be made via the ATO office by telephone or fax at 011-52-55- 5280-2000, ext. 4371, 4267, 4787. The ATO email address is <http://www.atomexico.gob.mx>.

For more information on the U.S. Grains Council and the services they offer, visit their website at <http://www.grains.org>.

SECTION II. STATISTICAL TABLES

PSD Table						
Country:	Mexico					
Commodity:	Wheat				(1000 HA) (1000 MT)	
	Revised 2000		Preliminary 2001		Forecast 2002	
	Old	New	Old	New	Old	New
Market Year Begin	07/2000		07/2001		07/2002	
Area Harvested	680	691	690	683	0	660
Beginning Stocks	600	600	650	781	750	651
Production	3300	3398	3250	3270	0	3180
TOTAL Mkt. Yr. Imports	3066	3079	3200	3100	0	3200
Jul-Jun Imports	3066	3079	3200	3100	0	3200
Jul-Jun Import U.S.	2015	1992	0	2000	0	2200
TOTAL SUPPLY	6966	7077	7100	7151	750	7031
TOTAL Mkt. Yr. Exports	705	651	500	650	0	600
Jul-Jun Exports	705	651	500	650	0	600
Feed Dom. Consumption	200	200	200	200	0	200
TOTAL Dom. Consumption	5611	5645	5850	5850	0	5900
Ending Stocks	650	781	750	651	0	531
TOTAL DISTRIBUTION	6966	7077	7100	7151	0	7031

Wheat Production Cost Budget State of Sonora (Pesos per Hectare)			
Item	Fall/Winter 00/01	Fall/Winter 01/02	% Change
Land Preparation	1,074.00	1,109.00	3.2
Planting	507.00	734.00	44.7
Fertilizing	1,431.00	1416.00	(1.0)
Irrigation	1,077.00	1,038.00	(3.7)
Cultural Practices	116.00	122.00	5.1
Control of Disease	1,429.00	2,022.00	41.4
Harvest	828.00	962.00	16.1
Other Costs	1,095.50	926.00	9.6
Total	7,557.50	8,329.00	13.8
Average Yield	6.0	6.1	1.6
Price	1,550.00	1,600.00	3.2
Gross Income	9,300.00	9,760.00	4.9
Total Cost	7,557.50	8,329.00	10.2
Profit	1,742.50	1,431.00	(21.7)
Cost of Production/MT	1,259.58	1,365.40	8.4

Exchange rate (February 26, 2002) US\$1.00 = \$9.20

Source: Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA)

Wheat Production Cost Budget State of Baja California (Pesos per Hectare)			
Item	Fall/Winter 00/01	Fall/Winter 01/02	% Change
Land Preparation	1,625.00	1,715.00	5.5
Planting	686.00	699.20	1.9
Fertilizing	1,873.00	1,808.60	(3.5)
Irrigation	967.90	1,089.48	12.5
Cultural Practices	N/A	N/A	N/A
Control of Disease	1,077.50	1,046.00	(3.0)
Harvest	990.00	1,080.00	9.0
Other Costs	1,423.78	1,191.84	(19.4)
Total	8,643.18	8,630.12	(1.5)
Average Yield	6.3	6.1	(3.2)
Price	1,550.00	1,650.00	6.4
Gross Income	9,765.00	10,065.00	3.0
Total Cost	8,643.18	8,630.12	(1.5)
Profit	1,121.82	1,434.88	27.9
Cost of Production/MT	1,371.93	1,414.77	3.1

Exchange rate (February 26, 2002) US\$1.00 = \$9.20

Source: (SAGARPA)

PSD Table						
Country:	Mexico					
Commodity:	Rice, Milled				(1000 HA) (1000 MT)	
	Revised 2000		Preliminary 2001		Forecast 2002	
	Old	New	Old	New	Old	New
Market Year Begin	10/2000		10/2001		10/2002	
Area Harvested	87	79	87	64	0	70
Beginning Stocks	195	195	211	289	186	274
Milled Production	270	215	258	185	0	195
Rough Production	405	322	387	277	0	292
Milling Rate(.9999)	6667	6667	6667	6667	0	6667
TOTAL Imports	410	560	395	500	0	510
Jan-Dec Imports	425	560	425	500	0	510
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	875	970	864	974	186	979
TOTAL Exports	4	1	3	0	0	0
Jan-Dec Exports	4	1	3	0	0	0
TOTAL Dom. Consumption	660	680	675	700	0	720
Ending Stocks	211	289	186	274	0	259
TOTAL DISTRIBUTION	875	970	864	974	0	979

PSD Table						
Country	Mexico					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised 2000		Preliminary 2001		Forecast 2002	
	Old	New	Old	New	Old	New
Market Year Begin	10/2000		10/2001		10/2002	
Area Harvested	7510	7144	7700	7875	0	7700
Beginning Stocks	2336	2336	1621	2223	1606	2336
Production	17700	17918	19000	19120	0	18700
TOTAL Mkt. Yr. Imports	5600	5976	6000	6000	0	6000
Oct-Sep Imports	5600	5976	6000	6000	0	6000
Oct-Sep Import U.S.	0	5976	0	6000	0	6000
TOTAL SUPPLY	25636	26230	26621	27343	1606	27036
TOTAL Mkt. Yr. Exports	15	7	15	7	0	7
Oct-Sep Exports	15	7	15	7	0	7
Feed Dom. Consumption	8800	8800	9800	9800	0	10000
TOTAL Dom. Consumption	24000	24000	25000	25000	0	25600
Ending Stocks	1621	2223	1606	2336	0	1429
TOTAL DISTRIBUTION	25636	26230	26621	27343	0	27036

Corn Production Cost Budget State of Jalisco (Pesos per Hectare)		
	2000 Spring/Summer Crop	2001 Spring/Summer Crop
Land Preparation	480	275
Planting	460	1,140
Fertilizing	980	1,025
Cultural Practices	660	450
Control of Diseases	500	515
Harvest	660	822
Miscellaneous	300	740
TOTAL	4,040	4,967

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

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

Source: SAGARPA

PSD Table						
Country	Mexico					
Commodity	Sorghum				(1000 HA)(1000 MT)	
	Revised 2000		Preliminary 2001		Forecast 2002	
	Old	New	Old	New	Old	New
Market Year Begin	10/2000		10/2001		10/2002	
Area Harvested	1830	1835	1930	1955	0	1950
Beginning Stocks	1281	1281	881	856	781	1137
Production	5700	5665	6200	6881	0	6850
TOTAL Mkt. Yr. Imports	4950	4960	4500	4800	0	5000
Oct-Sep Imports	4950	4960	4500	4800	0	5000
Oct-Sep Import U.S.	0	4960	0	4800	0	5000
TOTAL SUPPLY	11931	11906	11581	12537	781	12987
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	11050	11050	10800	11400	0	11850
TOTAL Dom. Consumption	11050	11050	10800	11400	0	11850
Ending Stocks	881	856	781	1137	0	1137
TOTAL DISTRIBUTION	11931	11906	11581	12537	0	12987

Sorghum Production Cost Budget State of Jalisco (Pesos per Hectare)		
	2000 Spring/Summer Crop	2001 Spring/Summer Crop
Land Preparation	940	1,000
Planting	1,200	660
Fertilizing	875	614
Cultural Practices	795	303
Control of Diseases	350	545
Harvest	1,175	800
Miscellaneous	-	-
TOTAL	5,335	3,922

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

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

Source: SAGARPA

PSD Table						
Country	Mexico					
Commodity	Beans					
					(1000 HA)(1000 MT)	
	Revised 2000		Preliminary 2001		Forecast 2002	
	Old	New	Old	New	Old	New
Market Year Begin	01/2000		01/2001		01/2002	
Area Harvested	1469	1469	1712	1759	0	1800
Beginning Stocks	115	115	21	21	126	175
Production	877	877	1126	1175	0	1200
TOTAL Mkt. Yr. Imports	85	85	85	85	0	80
Jul-Jun Imports	85	85	85	85	0	80
Jul-Jun Import U.S.	79	69	70	70	0	75
TOTAL SUPPLY	1077	1077	1232	1281	126	1455
TOTAL Mkt. Yr. Exports	6	6	6	6	0	8
Jul-Jun Exports	6	6	6	6	0	8
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1050	1050	1100	1100	0	1170
Ending Stocks	21	21	126	175	0	277
TOTAL DISTRIBUTION	1077	1077	1232	1281	0	1455

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY, & MARKETING

WHEAT

Production

Total Mexican wheat production is forecast to fall in MY 2002/03 (July/June) to 3.180 MMT, due to a drop in planted area and limited irrigations, due to low water reservoir levels caused by the continuing dry weather in the states of Sonora and Sinaloa. Total Mexican wheat production in MY 2001/02 is estimated to slightly increase by 0.6 percent to 3.270 MMT over the previous estimate, due to higher beginning stocks and light precipitation and cool temperatures during much of the fall/winter crop cycle in Sonora and Baja California.

FAS/Mexico uses official Mexican government statistics for historical purposes. Thus, production was decreased slightly for MY 2000/01 to 3.398 MMT to reflect final Mexican government data.

Even though total production is expected to be down for MY 2002/03, durum wheat continues to be planted in significant quantities in Sonora, Baja California, and Sinaloa. In fact, according to trade sources, farmers in the northwest planted around 70 percent of their wheat crop in durum wheat for the fall/winter 2001/02 crop cycle, compared to 60 percent a year ago. Durum wheat provides higher yields and is more resistant to disease. Moreover, these three states exported over 650,000 MT of durum in 2000 because of attractive prices.

The GOM is expected to have a reference or negotiated price for MY 2002/03, which should be very similar to last year's price of \$1200 pesos per metric ton. There should also be price differences given the variety and quality of the wheat.

Overall harvested area for wheat in MY 2002/03 is forecast to decrease over MY 2001/02 to around 660,000 hectares. This reflects a shift out of wheat production in Sonora and Sinaloa. Crop area is estimated to decline 1.0 percent in MY 2001/02 because of limited water supplies in Sonora, Sinaloa and Chihuahua.

Over-production of durum has been a perennial problem in Mexico, due to higher durum wheat yields. Nevertheless, durum wheat has found attractive export markets and estimates are that around 70 percent of planted area in the northwest is planted to durum.

For MY 2001/02, dry conditions have prevailed throughout much of the northwest, adversely affecting the crop in Sinaloa and Chihuahua. Around 98 percent of the spring harvested crop is irrigated while only three percent of the fall harvest crop is irrigated.

The average yield for MY 2002/03 is forecast to increase slightly to over 4.81 MT/hectare because of favorable growing conditions in Sonora and increased production of durum wheat. The average yield for MY 2001/02 should slightly increase to around 4.78 MT/hectare because of light rains and cooler temperatures in Sonora and Baja California during the fall/winter crop cycle. The average yield for MY2000/01 is revised upward to 4.91 MT/hectare to reflect final government data.

The majority of the wheat producing areas in the Northwest is under irrigation. Little of the fall harvest is irrigated, rather, it is grown during the rainy season. There are three different average yields in Mexico, depending upon region of production and variety. Yields for durum wheat are generally around 5.9 MT/HA, spring harvested bread wheat around 4.8 MT/HA and fall harvested bread wheat around 2.8 MT/HA.

For MY 2001/02, millers in Mexico indicated that higher quality, domestic bread wheats were good, with low gluten content and relatively high protein levels, of about 19 percent. According to sources, the quality of domestic durum was good and food-use demand for this type of wheat has increased for making pasta.

Consumption

Consumption for MY 2002/03 is forecast to increase slightly to around 5.90 MMT, due to continued consumer purchasing power in Mexico's higher income population, steady flour and bread prices and general population growth. Much for the same reason as above, consumption for MY2001/02 remains unchanged from the previous estimate. For MY 2000/01 consumption is revised slightly upward to reflect final government data.

According to trade sources, feed manufacturers prefer domestic durum in feed rations rather than imported sorghum or corn because of the higher nutritional value. However, attractive durum prices in the international market last year attributed to large exports. High durum prices this year will also pull the majority of durum production from domestic feed channels to the export market.

Trade

Imports are forecast to increase in MY 2002/03 to 3.200 MMT because of the continued decline in the production of bread quality wheat. Total wheat imports in MY 2001/02 are expected to decrease to 3.100 MMT because of the slight increase in domestic production and larger beginning stocks. For MY 2000/01 imports are revised slightly upward to reflect final government data.

The availability of GSM-102 credit guarantees through the Commodity Credit Corporation will continue to be an important incentive for Mexican wheat millers, even though Canadian exports are normally accompanied by guaranteed credit terms. Mexican millers prefer to purchase U.S. wheat due to the ease of shipment.

In MY 2002/03 exports of durum wheat are forecast to fall to 500,000 MT, due to expected lower production and increased domestic consumption. In MY 2001/02, exports are revised upward, due to attractive export prices. For MY 2000/01 exports are revised downward to reflect final government data.

Canada has gained a good share of the Mexican wheat market in recent years through aggressive pricing. Since then, however, the United States has regained market share, principally through GSM financing. U.S. wheat must still compete on price and quality with Canada. The United States, however, maintains a significant advantage over other suppliers since many smaller mills purchase wheat for delivery by rail.

Stocks

Ending stocks are forecast to be around 431,000 MT for MY 2002/03. Supplies have been tight because of the decline in the production of bread quality wheat and the significant level of exports. Ending stocks in MY 2001/02 are estimated to fall to 651,000 MT as exports increase and imports decrease. Ending stocks for MY 2000/01 are revised upward to reflect final government data.

Flour mills generally keep between one and two months supply of imported wheat.

Policy

It is unlikely that the eventual removal of the U.S. import tariffs on Mexican wheat will have any effect on trade because Mexican wheat, with the exception of wheat from the Mexicali valley, is not allowed into the U.S. due to the presence of karnal bunt.

Mexico has converted its import licensing scheme for wheat imported from the United States and Canada to tariff-only treatment. Currently, for NAFTA partners, the import tariff for wheat and wheat flour is 1.5 percent ad valorem and will be reduced to zero next year.

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 the grain trade between our countries.

RICE

Production

Rice production for MY 2002/03 (October/September) is forecast slightly upward from the previous year's revised estimate, due to expected incentives from the Mexican government which have not yet been announced.

Rice production in MY 2001/02 is estimated to decrease to 185,000 MT (milled basis), a decrease of around 30,000 tons, or about 16.2 percent less from MY 2000/01. For MY 2000/01 production is revised downward to reflect final government data. Additionally, for the past couple of years, domestic production costs, lack of adequate government support, and excessive competitive imports are the primary factors behind the decrease in production. As a sign of the severity of the northern drought, the government limited a spring crop in Sinaloa, opting instead to allocate scarce water to vegetable producers.

Traditionally, rice production has been relatively less profitable than other crops, especially in the state of Sinaloa which at one time was the dominant rice producing state. However, the few remaining mills in Sinaloa are operating at an estimated 20 percent of capacity and drought has seriously affected production. Many in the industry now doubt that Sinaloa has a future in rice production without a quick return to normal rainfall and water levels. Veracruz is now the top producing rice state, followed by Campeche, Tabasco, Sinaloa, and Guerrero.

Southern Mexican states are well-suited for rice production and, according to the Mexican Rice Council, yields are the highest in the country. However, farms generally lack mechanization and financing to achieve production efficiency comparable to the United States. Government sponsored programs are in effect which offer much needed financing to small- and medium-sized producers, however, due to high interest costs, it is unlikely that the programs will have any significant impact on production in the short-term. Therefore, at best, rice production will remain stable, or gradually decline in the next few years.

For MY 2002/03, crop area is forecast upward from the previous year's revised figure by 9.3 percent, due to expected government assistance with financing funds. Crop area is estimated downward to 64,000 hectares for MY 2001/02, a decline of 35.9 percent from our previous estimate, due to excessive competitive imports and lack of timely government economic assistance. Crop area for MY 2000/01, is revised downward to reflect final government data. As noted earlier, crop area in the state of Sinaloa, has dropped dramatically from previous years and is currently affected by drought and government policies that favor allocation of scarce water to vegetable producers. Government efforts to increase production in Veracruz, and the nearby states of Tabasco and Campeche, have been only marginally successful to date.

Given that most rice production in the major growing regions is irrigated, average yields are expected to remain at about 4.9 metric tons per hectare, with yields in Veracruz slightly higher. However, given the increase in input costs, many producers may not have the financial resources to use the same amount of inputs. Thus, yields could be lower due to high input costs.

Consumption

In MY 2002/03, rice consumption is forecast to increase from the previous year's revised estimate, due to marketing efforts of rice mills, 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. Much for the same reason as above, consumption in MY 2001/02 is estimated upward by 3.7 percent. Consumption for MY 2000/01 is revised upward to reflect final government data.

The variety of consumer ready rice mixes in Mexican grocery stores have increased dramatically in recent years. The initial consumer response was favorable and encouraged millers and distributors to offer more varieties of rice. Virtually all mills are now producing 1 kilogram bags of rice for the retail market.

Trade

Rice imports are forecast upward for MY 2002/03, primarily as a result of the drop in production in MY 2001/02 and lower beginning stocks. Imports for MY 2001/02 are estimated upward from our previous estimate, due to a sharp fall in production caused by excessive imports at competitive prices. Reportedly many rice growers left their land idle because of the high production cost of domestic rice and lack of timely government assistance. For MY 2000/01, rice imports were revised upward to reflect government final data. Aside from the United States, the only other major suppliers in recent years have been Uruguay and Argentina. Under a bilateral agreement, rice from Uruguay and Argentina receives a zero duty. Brokers and millers are the primary importers.

Stocks

Ending stocks are forecast to continue downward for MY 2002/03 to 259,000 MT. Rice mills generally keep between one and two months supply of imported rice in stocks. However, due to insufficient domestic production to meet demand, mills will increasingly 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 2001/02 are estimated upward from our previous estimate, due to increased imports. For MY 2000/01 ending stocks were revised upward to reflect final government data.

Policy

Over 80 percent of rice imports are paddy rice which has a tariff of 1 percent. The United States is the dominant supplier. The balance of rice imports are milled rice, which has a tariff of 2 percent. As a result of NAFTA, the United States and Mexico will eliminate their respective tariffs on rice next year.

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 formulate more healthy diets and increase rice consumption in lower income areas of the country.

CORN**Production**

For marketing year 2002/03 (Oct-Sep), the initial forecast of total Mexican corn production is 18.70 MT. The main reason for this slight decline is a smaller harvested area. MY 2001/02 harvested area and production estimates were increased as a result of good weather conditions. According to official sources, yields increased during the spring/summer 2001 crop cycle due to several factors, including timely and above average rains and excellent pest control programs during planting season. Other contributing factors were improved seed varieties, higher sowing density, as well as timely support to producers provided through PROCAMPO.

Production of corn in Guanajuato increased due to above-normal precipitation providing abundant soil moisture in the spring/summer 2001 crop cycle. The larger output was also due to an increase in harvested area. Production in Jalisco, a major corn producing state for the same spring/summer crop cycle, increased by 19 percent to reach 2.5 MMT, due to good weather conditions. Average yields for 2001's spring-summer crop in Jalisco have increased substantially, from 4.5 MT/ha. compared to 3.6 MT/ha. a year ago. Approximately 95 percent of Jalisco's crop area is non-irrigated.

In the state of Sinaloa, farmers continue to plant more corn than previously anticipated by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA). In an attempt to influence production patterns of white corn in the 2001/02 fall/winter crop cycle, SAGARPA officials agreed with Sinaloa producers to plant only 203,000 hectares. To do this, SAGARPA encouraged feed and food manufacturers to enter into forward contract purchases. Despite this, farmers increased planted area to 286,000 has., with the expectation of receiving the higher overall price they received last year for white corn (see Policy section). The central pacific coast state of Sinaloa is the main source of commercial white corn production in Mexico for the fall corn crop, representing approximately 17 percent of total corn production. It is produced largely under irrigation. Harvest is expected to occur in May-June.

The majority of the corn grown in the northwest part of Sinaloa is produced using very advanced technology, similar to that in the United States. In addition, large areas are under irrigation. This allows for even higher yields, up to 8-10 MT per hectare in some areas. This is compared to national average corn yields for MY 2001/02 of approximately 2.43 MT per hectare. Assuming good weather conditions prevail, national corn yields should average also about 2.43 MT per hectare for MY 2002/03.

In CY 2001, the rate of increase in the cost of farm input prices was approximately 23 percent higher than the previous year. The input costs for corn production in the state of Jalisco 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 a large part on the level of technology used.

The general quality of the 2001 spring/summer crop has been very good, due to above normal rainfall. Similarly, the quality of corn grown in the north for the fall/winter season is reported to be above average, due to above normal precipitation and normal weather conditions.

FAS/Mexico uses official Mexican government statistics for historical purposes. The MY 2000/01 production estimate of 17.918 MMT as well as the figure for area harvested, reflects official Mexican government data.

Production Policy

According to ASERCA officials, a flat rate per hectare payment of 874 pesos per hectare (US\$98/acre) will be given to farmers for the spring/summer 2002 crop cycle and for the fall/winter crop of 2002/03. This payment is 5.43 percent greater than what SAGARPA paid during the same period in 2001/02 and is part of PROCAMPO's support program. Sources also stated that the modifications implemented in PROCAMPO last year will continue during the 2002/03 planting seasons (See MX1032). SAGARPA estimates that for the 2002 planting cycles, approximately 2.5 million farmers will be eligible to receive PROCAMPO payments in both planting cycles. ASERCA is SAGARPA's decentralized administrative body in charge of developing and implementing Mexican domestic farm and agricultural trade policy

Official sources indicated that there are provisions in the 2002 budget for ASERCA to provide incentives for Mexican farmers to switch production from white corn to crops that Mexico is not self sufficient in producing (i.e., yellow corn, sorghum and oilseeds.) In order to do this, ASERCA will have to issue subsidies to farmers enabling them to switch production to these alternative crops so as to be able to compete with the higher overall price Mexican farmers generally have received for white corn. Another part of ASERCA's proposal is to enter into agreements with Mexican food and feed manufactures to establish forward contract purchases for these alternative crops. ASERCA will also promote a price coverage program in order to protect the income of grain and oilseed producers, through the use of a commodity hedging program. ASERCA could announce the new subsidy scheme as early as March. The intention is to influence grain production patterns for 2002-2003, especially those for corn. As previously mentioned, the fall/winter corn crop is produced largely under irrigation, which makes it easier to switch to an alternative crop. SAGARPA plans on spending 11.0 billion pesos (US\$ 1.2 billion) in income supports and 5.4 billion pesos (US\$593 million) in price supports to grain farmers in 2002. It is not yet known how the payments will be distributed by commodity. Private sources, however, indicate that there are several reasons to be skeptical about the GOM's efforts to increase yellow corn production, including lack of sufficient yellow seed varieties; few farmers willing to switch from traditional white corn production to yellow corn production; and lack of education among farmers, which hampers this transition process and slows the adoption of different farming technologies and cultural practices.

On February 15, 2002 SAGARPA announced in Mexico's Federal Register ("*Diario Oficial*") the breakdown of supports for grains and oilseeds through several support programs. While SAGARPA indicated that the supports were for the 2001/02 fall/winter planting season, it did not specify the amounts to be distributed by commodity nor the administrative guidelines. The breakdown of corn, sorghum, and wheat supports are as follows:

Program	Corn Total Volume Subsidied (MT)	Sorghum Total Volume Subsidied (MT)	Wheat Total Volume Subsidied (MT)
Direct Support to Basic grains & Oilseeds	2,756,752	2,903,877	1,200,000
Supports for feed grains	-	700,000	-
Commodity Hedging Program	728,000	1,000,000	420,000
Export Support Program	500,000	-	650,000
Storage Support (" <i>Pignoracion</i> ")	500,000	315,000	60,000
Total	4,484,752	4,918,877	2,330,000

Consumption

Corn consumption is estimated to be approximately 25.6 MMT in MY 2002, an increase of 2.4 percent over last year. Domestically produced corn is predominately white corn varieties and is used for human consumption. Tortillas continue to be a staple in the Mexican diet, with a per capita consumption of 126 kilograms per year. Human

consumption should increase in accordance with population growth, but tempered by a decrease in the consumer purchasing power, which will induce consumers to buy cheaper food. Moreover, tortilla makers foresee that tortilla consumption will increase as the traditional *nixtamal* process switches from corn grain to corn flour, which changes the texture of the tortilla and results in a more appealing end product for the consumer.

Since NAFTA's implementation, domestic corn consumption has increased as a result of greater demand by animal feed and starch industries. Reportedly, there are comparative advantages offered under NAFTA for those sectors. Poultry producers, for example, prefer yellow corn over the domestically produced white corn, and through the access under Mexico's NAFTA TRQ, the majority of feed corn is imported. Other important end-users of yellow corn include the swine and wet-milling industries. The expected increase in total corn consumption reflects an increase in human consumption as well as feed consumption. Domestic feed demand is forecast at 10.0 MMT for MY 2002. Despite the economic slowdown, the Mexican feed millers' association expects that feed consumption will increase approximately 4 percent in MY 2002, due to strong demand from the livestock industry. Mexico's poultry meat and egg sectors, for example, are expecting to grow 6 and 3 percent respectively in MY 2002. The poultry industry is the major consumer of feed corn and sorghum.

Trade

Total corn imports in MY 2002 are projected to remain at 6.0 MMT, largely because of increased domestic production. The U.S. will remain the largest supplier. It should be noted that the MY 2002/03 import estimate assumes that the Government of Mexico will not enforce any regulation against transgenic corn (see MX2027) nor that corn destined for HFCS production will be adversely impacted by the ongoing U.S./Mexico trade policy dispute on sugars and sweeteners (see MX2002 and MX2013). It is unlikely that Mexico will import corn from any sources other than the United States in the foreseeable future. For MY 2000/01 and MY 2001/02, export estimates were reduced to 0.7 MMT, based on Mexican official data and industry information. The import estimate for MY 2000/01 was revised upward based on official U.S. Census Trade Data.

The 2002 import quota for U.S. corn is 3.167 MMT and will be administered as before with the GOM allocating "cupos" to importers and industry. The GOM, however, has announced some changes in the policy to allocate "cupos", as reflected in the Secretariat of Economy's (SE) December 27, 2001 announcement stating the 2002 U.S. import quota as well as the new administration procedures for importers (see MX2012). According to industry sources, while the publication of these official rules results in more transparency for industry and importers, the relatively rigorous requirements may result in government delays in issuing import permits for U.S. corn, due to increased administrative demands on SE. According to industry sources, however, given Mexico's historic inability to fully meet its domestic consumption demands for corn, such rules are not necessarily being seen as a trade barrier to U.S. corn imports.

At the same time, official sources indicated that as part of Mexico's grain production plan (see Policy section), SAGARPA will have a more active role in controlling the distribution of import quotas (cupos) in CY2002. Sources indicated that SAGARPA and Finance Ministry (Hacienda) would allocate out-of-quota cupos for yellow corn on a case-by-case basis. Reportedly, SAGARPA would be more selective in issuing cupos to the feed industry, since it has alternatives such as domestic and imported sorghum and imported cracked corn. Preference for corn cupos out-of-quota would be given to the starch industry and food processors that use only yellow corn, sources said.

Furthermore, SAGARPA and SE must reduce the out-of-quota quantity of corn imported in CY2002 by 500,000 MT as mandated by Congress in the 2002 Budget Law. This would reduce total corn imports from approximately 6.2 MMT to 5.7 MMT of corn in CY2002. On May 18, 2001, SE published in the Mexican "Diario Oficial" (Federal Register), the announcement which included the implementation of new tariff lines for white and yellow corn (see MX1074). Moreover, on December 31, 2001, SE announced that the out-of-quota import tariff for 2002 corn will be 1 percent for yellow corn and 2 percent for white. This will remain in effect until December 31, 2002.

Stocks

Mexico's ending stocks are forecast to decline slightly to approximately 1.429 MMT in MY 2002, thereby maintaining a low-stock-to-use ratio. MY 2001 estimated ending stocks were revised upward, due to higher-than-previously estimated domestic production. The MY 2000 ending stock estimate was increased reflecting more recently available information.

Policy

Since NAFTA was implemented on January 1, 1994, the over-quota tariff on corn has been reduced to 108.9 from 206.4 percent and the TRQ has increased to 3.167 MMT for 2002 from 2.5 MT for 1994. 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.

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

Sorghum production in MY 2002 is forecast to remain unchanged at 6.85 MMT. The forecast for harvested area is also unchanged from last year. Yield is forecast at 3.513 MT per hectare, the second highest in the last few years. This forecast reflects normal weather conditions.

The MY 2001 production estimated was revised upward as a result of excellent yield obtained over much of the growing region, mainly in the spring/summer crop. As the harvest season came to close in November, SAGARPA and private industry surveys revealed that above average rainfall and nearly ideal harvesting conditions increased expected yields in the Bajio region where the bulk of the harvest is produced. As a result, quality for this harvest was reported as good.

For the 2001/02 fall/winter crop, water availability is adequate in Tamaulipas (Falcon and La Amistad water reservoirs). This may result in an increase in production compared to the preceding year. Sorghum production is spread throughout the country, with the largest producing states in 2001/02 being Tamaulipas, Guanajuato Michoacan

and Jalisco. The states of Guanajuato, Jalisco, and Michoacan in west central Mexico make up the Bajio region. The MY 2000/01 production area estimate was decreased to reflect final government data.

Over the past year, the rate of increase in the cost of farm inputs has slowed from previous levels. According to SAGARPA, this is primarily a function of lower planting and cultural practices costs. Input costs are expected to increase at approximately the forecast rate of inflation (4.5 percent) for 2002.

A per hectare base payment of 874 pesos per hectare (US\$98/acre) will be given to farmers for the spring/summer 2002 crop cycle and for the fall/winter crop of 2002/03. These payments are part of PROCAMPO program. Additionally, a support program to market sorghum is expected to be announced by SAGARPA in early March (see Corn Production Policy section).

Consumption

Sorghum consumption is forecast to increase to 11.85 MMT in MY 2002, a 4 percent increase from MY 2001, due to affordable prices and continued strong demand from feed millers and poultry sector. Despite the economic slowdown, the poultry sector is expected to continue growing in 2002 (See MX 2014). Sorghum consumption for MY 2001 was revised upward to reflect the most current Mexican government and industry data.

Trade

Total sorghum imports in MY 2002 are forecast at 5.0 MMT, up 4 percent from last year's revised estimate, based on an expected increase in feed grain demand. The United States is expected to supply virtually all of these imports due to NAFTA access advantages over countries like Argentina, the only potential supplier. Imports of U.S. sorghum are duty and quota free.

Stocks

For MY 2002 ending stocks are forecast to remain unchanged at 1.1 MMT. The estimated of MY 2001 ending stocks were raised based on higher production than previously estimated. Generally, private feed millers keep between one and two months supply of feed in stock. The estimate of MY 2000 ending stocks were revised downward because of lower expected domestic production compared to earlier estimates

BEANS, DRY EDIBLE

Production

Mexican dry edible bean production in MY 2002 is forecast at 1.2 MMT, 2 percent higher than last year's revised estimate. The forecast for area harvested is practically unchanged at 1.8 million hectares. Both forecasts reflect a normal bean crop that would result from normal weather conditions. The production estimate for MY 2001 as well the harvested area estimate were revised upward. This change reflects the most recent SAGARPA data, which includes an update for the 2001/02 fall/winter harvest and a preliminary estimate for the 2002 spring/summer harvest.

Industry sources estimate that the 2001/02 fall/winter harvest could produce approximately 850,000 MT of edible dry beans. In the previous crop, Mexico harvested 629,256 MT. This increase will be possible because of ample rainfall. Growers traditionally plant their spring/summer harvest from March to August and harvest it from September to March.

In Zacatecas, the main producing state, official reports indicated that, as of January 17, 2002, 527,590 ha. had been harvested and only 86,090 ha. had been reported as damaged; this is 61 percent less than the area that was damaged last year. Zacatecas production is expected to reach approximately 300,000 MT, approximately 15 percent more than the year before. According to official sources, this production was broken down into approximately 40 percent blacks, 4 percent pintos and 56 percent colored beans.

Production in Durango, the second most important dry bean producing state, also increased approximately 23 percent, due to good weather and timely rainfall during the growing season. Sources indicated that Durango received approximately 65 percent of normal rainfall. Most of the 2001 spring/summer crop was planted in late July/early August. Yields were also said to be well above normal for this crop, averaging 0.440 MT/ha., compared to 0.398 MT/ha. one year earlier. Production is forecast at 115,000 MT, with approximately 80 percent of the crop being pintos varieties, 12 percent colored beans, and 8 percent other varieties. According to industry sources, Durango is increasingly using more modern farming practices, which has resulted in better weed control and bean stands.

Growers were pleased with the spring/summer 2001 crop in Chihuahua, the third most important dry bean producing state. Crop conditions during growing season were much better than last year and contributed to good yields. The approximately 148,000 has. which are to be harvested are expected to produce approximately 104,000 MT; average yields are expected to be approximately 0.701 MT/ha. compared to 0.438 MT/ha. during the previous year.

Weather continues to be the predominant production factor given that over 75 percent of Mexico's bean area is unirrigated. The absence of early frosts in the main producing areas of Zacatecas and Durango, allowed for higher yields than were preliminarily forecast. The overall yield for the MY 2002/03 dry bean crop in Mexico is expected to reach about 0.667 MT/ha., practically unchanged from the average yield obtained in MY 2001/02; this yield figure assumes normal rainfall and weather conditions. For the 2001/02 fall/winter harvest, the quality of dry beans in Zacatecas was good, with many big and mature beans. Planting of dry beans for the fall/winter crop (harvested in the spring/summer) peaks during November, when 45 percent of the total dry bean cultivation acreage is planted.

Despite good crop yields and production, grower prices have increased compared to the year before. Farmgate prices in Zacatecas for Flor de Mayo are between 6.20-7.20 pesos/kg (approximately US\$0.31-0.36 per pound), considerably higher than a year ago (4.50-4.70 pesos/kg - US\$0.21-0.22 per pound). At the same time, the price paid for black beans is now at 7.50 pesos/kg (US\$0.37 per pound), compared to the 2.80 pesos/kg (US\$0.13 per pound) that black beans were selling for last year.

In order to support Zacatecas bean producers, SAGARPA and the Zacatecas state government signed an agreement with the purpose of stabilizing the dry bean market. The state government will establish a State Funding Support for Dry Bean Trading and SAGARPA will provide a one-time-only funding of 179,694,251 pesos (U.S.\$19.5 million). ASERCA will manage this program.

Consumption

The forecast for dry bean consumption in MY 2002/03 is 1.170 MMT, an increase of approximately 6.3 percent from last year. Dry beans are a basic food staple in Mexico and consumption should increase in spite of the current economic slowdown. It is likely that middle income consumers will switch from consuming more expensive meat and poultry to less expensive dry beans to offset their reduced purchasing power. Per capita dry bean consumption in Mexico continues to be one of the highest in the world, at approximately 14/kg per year.

Trade

Imports are forecast at approximately 80,000 MT for MY 2002/03, based on adequate rainfall for the domestic crop and large carryover stocks. On January 31, 2002, SE announced that, on March 1, 2002, it will conduct the first auction of permits to import 21,113 MT of U.S. dry edible beans (HS 0713.33.99). This quantity represents one-third of the total NAFTA tariff-rate quota (TRQ) for CY 2002. The auction for the last two-thirds of the TRQ will be held on June 1st (See MX 2022).

NOTE: Although there are differences with U.S. export data, FAS/Mexico uses Mexican import statistics from SE.

Because of the tremendous influence weather has on Mexico's dry bean production, Mexico will continue to be in and out of the international market in the future. If Mexico is in the market and U.S. prices are high, importers will likely continue to look toward other sources of supply, based not on quality, but on price.

Stocks

The ending stock estimate for MY 2001 has been increased to 175,000 MT because of higher-than-expected production. For MY 2002, ending stocks are forecast to increase further to 277,000 MT.

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 2006. For the United States in 2002, duty-free access to the Mexican market is set at 63,338 MT. The over-quota tariff is 70.4 percent for 2002. 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.

During 2002, Canada has duty-free access for 1,900 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 it is relatively small. Some Mexican bean packers might see this as an opportunity to market Mexican bean varieties under their own labels in the United States to Hispanic consumers. In any event, the amount of exports would be relatively small.

By gaining a guaranteed minimum access for U.S. dry beans each year, Mexico will become a more stable import market, with imports driven more by market forces than political decisions. On December 19, 2001, SE announced the

NAFTA TRQ for dry edible beans for 2002. This announcement included information on Mexico's administration of bids on the importation of dry beans in 2002, according to the understanding reached between the U.S. and Mexico. If Mexico's import needs again are greater than the TRQ quantity in upcoming years, the United States is guaranteed MFN (most-favored nation) tariff treatment for additional exports.

Marketing

In November 2001, the National Dry Beans Council (NDBC) conducted another successful International Dry Bean Congress in Mexico City with the purpose of providing traders with updated market information. The NDBC published the Executive Summary of the Dry Bean Consumer Study which took place this summer. It was the first time that Fox Administration officials from SE and SAGARPA participated in this Congress. The NDBC has a full-time representative located in Mexico City.