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Grain and Feed

Annual

2003

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Report Highlights:
This is a revised Grain and Feed Annual Report, which clears up certain inconsistencies contained in the previously submitted 2003 Grain and Feed Annual Report. The corn PSD table has also been revised to reflect the absence of cracked corn. As a result of the economic slowdown, Mexico's total imports of grain and feed will likely increase only marginally in MY 2003/04. MY 2003/04 production of rice and corn is expected to increase slightly, while wheat, sorghum, and dry bean production is expected to decline from the MY 2002/03 harvest.

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

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SECTION I. SITUATION AND OUTLOOK

Wheat

Total Mexican wheat production for MY 2003/04 (Jul-Jun) is forecast downward to 2.95 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 2003/04 are forecast to increase from the previous year's estimate, reaching 3.40 MMT, due to an expected increase in consumption and a drop in domestic production. The MY 2002/03 import estimate has been revised downward from our previous estimate, due to an increase in domestic production and a steady consumption rate.

Rice

Mexican rice production for MY 2003/04 is forecast to slightly increase from the previous year's revised estimate to 142,000 MT (milled), due to expected federal and state government assistance programs. For MY 2002/03, rice production has been revised downward, due to less area planted and lower yields from reduced inputs. Additionally, many areas planted to rice were not harvested by their owners due to the excessive amount of very competitive imports from the U.S. with which domestic production cannot compete. Imports in MY 2003/04 are forecast upward based on insufficient domestic production and an expected consumption increase.

Corn

Production is forecast to be 19.0 MMT for 2003/04 (Oct-Sep) or 12 percent more than a year before. This increase is attributed to a rise in harvested area and assumes normal weather conditions. Production estimates for MY 2002/03 reflect the latest official Mexican government data. Imports are forecast to increase to 7.5 MMT based on strong demand from feed and other domestic uses. For the current MY 2002/03, the import estimates have been increased to 7.0 MMT to reflect most recent available information from private and official sources. With increases in production and imports, ending stocks are expected to increase in MY 2003/04. Domestic feed demand is forecast at 10.0 MMT for MY 2003/04. The domestic feed consumption estimates for MY 2001/02 and MY 2002/03 have been revised downward based on current industry information, reflecting the substitution of corn by imported cracked corn for the livestock sector during those years. The 2003 import quota for U.S. corn is 3.262 MMT and will be administered as before with the government allocating "cupos" (import permits) to importers and industry. As in 2002, the GOM has announced new changes in the policy to allocate "cupos." One such change, for example, stated that administration of the corn tariff rate quota (TRQ) will be handled through two allocations for the majority of the importers except the livestock sector, which will have one-allocation auctions. The length of this allocation is from January to December, while the other allocation will be valid for three months. 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 900,000 MT and 1.0 MMT for MY 2001/02 and MY 2002/03, respectively. The differences between imports of corn and cracked corn for these marketing years can be seen in the revised estimates for domestic feed consumption.

Sorghum

For sorghum, 2003/04 (Oct-Sept) production is forecast to decrease slightly to 5.6 MMT as a result of a lower harvested area. The production estimate for MY 2002/03 has been revised upward to reflect the most recent available information from government and private sources. Imports are forecast to remain unchanged as feed millers and livestock producers

continue to prefer importing yellow corn instead of sorghum, due to the price relationship between the two grains continuing to be favorable to corn. MY 2001 import estimate has been increased to 5.165 MMT, reflecting official information from the Secretariat of Economy (SE).

Dry Edible Beans

The production estimates for MY 2002/03 has been increased to 1.450 MMT, due to continued good weather conditions during the spring/summer crop. For MY 2003/04, production is forecast to decrease to approximately 1.2 MMT, assuming a decrease in harvested area and normal weather conditions. Imports in MY 2002/03 are expected to be down 44 percent based on large carryover stocks. The estimate for MY 2002/03 imports have been adjusted upward based on preliminary official data and private sources estimation.

SECTION II. STATISTICAL TABLES

PSD Table						
Country:	Mexico					
Commodity:	Wheat				(1000 HA) (1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	07/2001		07/2002		07/2003	
Area Harvested	685	683	660	660	0	596
Beginning Stocks	781	781	856	651	0	531
Production	3270	3270	3150	3180	0	2950
TOTAL Mkt. Yr. Imports	3200	3100	3300	3200	0	3400
Jul-Jun Imports	3200	3100	3300	3200	0	3400
Jul-Jun Import U.S.	0	2000	0	2200	0	2600
TOTAL SUPPLY	7251	**7151**	7306	**7031**	0	**6881**
TOTAL Mkt. Yr. Exports	548	650	550	600	0	500
Jul-Jun Exports	548	650	550	600	0	500
Feed Dom. Consumption	200	200	200	200	0	200
TOTAL Dom. Consumption	5847	5850	5900	5900	0	5950
Ending Stocks	856	651	856	531	0	231
TOTAL DISTRIBUTION	7251	**7151**	7306	**7031**	0	**6881**

Wheat Production Cost Budget State of Sonora (Pesos per Hectare)			
Item	Fall/Winter 01/02	Fall/Winter 02/03	% Change
Land Preparation	1,109.00	1,295.00	16.7
Planting	734.00	788.00	7.3
Fertilizing	1416.00	1,336.00	(5.9)
Irrigation	1,038.00	1,182.00	13.8
Cultural Practices	122.00	150.00	22.9
Control of Disease	2,022.00	2,147.00	6.1
Harvest	962.00	1,076.00	11.8
Other Costs	926.00	731.00	(26.6)
Total	8,329.00	8,693.00	4.5
Average Yield	6.1	6.4	4.9
Price	1,600.00	1,660.00	3.7
Gross Income	9,760.00	10,624.00	8.8
Total Cost	8,329.00	8,693.00	4.3
Profit	1,431.00	1,931.00	34.9
Cost of Production/MT	1,365.40	1,358.28	(0.4)

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

Wheat Production Cost Budget State of Baja California (Pesos per Hectare)			
Item	Fall/Winter 01/02	Fall/Winter 02/03	% Change
Land Preparation	1,715.00	1,819.00	6.0
Planting	699.20	713.00	2.0
Fertilizing	1,808.60	1855.00	2.6
Irrigation	1,089.48	1,232.00	13.1
Cultural Practices	N/A	N/A	N/A
Control of Disease	1,046.00	1,068.00	2.1
Harvest	1,080.00	1,212.00	12.2
Other Costs	1,191.84	1,388.00	16.4
Total	8,630.12	8,785.00	1.8
Average Yield	6.1	6.5	6.5
Price	1,650.00	1,660.00	0.6
Gross Income	10,065.00	10,790.00	7.2
Total Cost	8,630.12	8,785.00	1.7
Profit	1,434.88	2,005.00	39.4
Cost of Production/MT	1,414.77	1,351.53	(4.6)

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

PSD Table						
Country:	México					
Commodity:	Rice, Milled				(1000 HA) (1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	10/2001		10/2002		10/2003	
Area Harvested	64	64	70	57	0	52
Beginning Stocks	159	289	141	274	0	259
Milled Production	185	185	195	104	0	114
Rough Production	277	277	292	156	0	172
Milling Rate(.9999)	6667	6667	6667	6667	0	6667
TOTAL IMPORTS	500	**500**	500	**590**	0	**600**
Jan-Dec Imports	500	500	500	590	0	600
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	844	974	836	968	0	973
TOTAL Exports	3	0	0	0	0	0
Jan-Dec Exports	3	0	0	0	0	0
TOTAL Dom. Consumption	700	700	700	709	0	730
Ending Stocks	141	274	136	259	0	243
TOTAL DISTRIBUTION	844	**974**	836	**968**	0	**973**

PSD Table						
Country:	Mexico					
Commodity:	CORN				(1000 HA) (1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	10/2001		10/2002		10/2003	
Area Harvested	7780	7780	7700	6700	0	7600
Beginning Stocks	2167	2167	2042	3282	2027	2632
Production	20400	20400	19000	17000	0	19000
TOTAL Mkt. Yr. Imports	4025	4405	6500	7000	0	7500
Oct-Sep Imports	4025	4405	6500	7000	0	7500
Oct-Sep Import U.S.	4024	4400	0	7000	0	7500
TOTAL SUPPLY	26592	**26972**	27542	**27282**	2027	**29132**
TOTAL Mkt. Yr. Exports	50	90	15	150	0	50
Oct-Sep Exports	50	90	15	150	0	50
Feed Dom. Consumption	9300	8400	10300	9300	0	10000
TOTAL Dom. Consumption	24500	23600	25500	24500	0	25800
Ending Stocks	2042	3282	2027	2632	0	3282
TOTAL DISTRIBUTION	26592	**26972**	27542	**27282**	0	**29132**

Corn Production Cost Budget State of Jalisco (Pesos per Hectare)			
Item	2000 Spring/Summer Crop	2001 Spring/Summer Crop	2002 Spring/Summer Crop
Land Preparation	480	275	303
Planting	460	1,140	1,265
Fertilizing	980	1,025	1,133
Cultural Practices	660	450	501
Control of Diseases	500	515	572
Harvest	660	822	908
Miscellaneous	300	740	820
TOTAL	4,040	4,967	5,502

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
Source: SAGARPA

PSD Table						
Country:	Mexico					
Commodity:	SORGHUM				(1000 HA) (1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	10/2001		10/2002		10/2003	
Area Harvested	1890	1890	1850	1760	0	1700
Beginning Stocks	788	788	811	1253	661	1253
Production	5900	5900	5500	5850	0	5600
TOTAL Mkt. Yr. Imports	4723	5165	4000	3800	0	3800
Oct-Sep Imports	4723	5165	4000	3800	0	3800
Oct-Sep Import U.S.	4690	5123	0	3800	0	3800
TOTAL SUPPLY	11411	**11853**	10311	**10903**	661	**10653**
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	10555	10555	9610	9610	0	9640
TOTAL Dom. Consumption	10600	10600	9650	9650	0	9700
Ending Stocks	811	1253	661	1253	0	953
TOTAL DISTRIBUTION	11411	**11853**	10311	**10903**	0	**10653**

PSD Table						
Country:	Mexico					
Commodity:	BEANS				(1000 HA) (1000 MT)	
	Revised 2001		Preliminary 2002		Forecast 2003	
	Old	New	Old	New	Old	New
Market Year Begin	01/2001		01/2002		01/2003	
Area Harvested	1759	1788	1800	1987	0	1850
Beginning Stocks	21	21	175	219	277	573
Production	1175	1263	1200	1450	0	1180
TOTAL Mkt. Yr. Imports	85	85	80	107	0	60
Jul-Jun Imports	85	85	80	107	0	60
Jul-Jun Import U.S.	70	81	75	101	0	55
TOTAL SUPPLY	1281	**1369**	1455	**1776**	277	**1813**
TOTAL Mkt. Yr. Exports	6	0	8	3	0	8
Jul-Jun Exports	6	0	8	3	0	8
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1100	1150	1170	1200	0	1250
Ending Stocks	175	219	277	573	0	555
TOTAL DISTRIBUTION	1281	**1369**	1455	**1776**	0	**1813**

Dry Beans Production Cost Budget State of Zacatecas (Pesos per Hectare)	
2002 Spring/Summer Crop	
Land Preparation	580
Planting	583
Fertilizing	500
Cultural Practices	171
Control of Diseases	178
Harvest	926
TOTAL	2,938

Exchange Rate (March 7, 2003) US $1.00 = 11.23 pesos
Source: SAGARPA

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

WHEAT

Production

Total Mexican wheat production is forecast to fall in MY 2003/04 (July/June) to 2.950 MMT, due to a drop in planted area and a limited ability to irrigate, due to drought-induced low water reservoir levels in the states of Sonora and Sinaloa. Total Mexican wheat production in MY 2002/03 is estimated to slightly increase by 0.9 percent to 3.180 MMT over the previous estimate, due to light precipitation and cool temperatures during much of the fall/winter crop cycle in Sonora and Baja California.

Even though total production is expected to be down for MY 2003/04, durum wheat continues to be the principal crop in Sonora and Baja California. According to trade sources, farmers in the northwest planted around 70 percent of their wheat crop in durum wheat for the fall/winter 2002/03-crop cycle. Durum wheat provides higher yields and is more resistant to disease. Moreover, these three states exported around 600,000 MT of durum in 2002 because of attractive prices.

The GOM is expected to have a reference or negotiated price for MY 2003/04, 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 2003/04 is forecast to decrease over MY 2002/03 to around 596,000 hectares. This reflects a shift out of wheat production to vegetables and citrus fruits in Sonora and Sinaloa. Crop area for MY 2001/02 has been revised slightly downward reflecting final government data.

The average yield for MY 2003/04 is forecast to increase slightly to over 4.9 MT/hectare because of favorable growing conditions in Sonora. The average yield for MY 2002/03 should

slightly increase to around 4.8 MT/hectare because of light rains and cooler temperatures in Sonora and Baja California during the fall/winter crop cycle. The average yield for MY 2001/02 is revised upward to 4.7 MT/hectare to reflect final government data.

Consumption

Consumption for MY 2003/04 is forecast to increase slightly to around 5.95 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 MY2002/03 remains unchanged from the previous estimate. For MY 2001/02, consumption is revised slightly upward to reflect final government data.

Trade

Imports are forecast to increase in MY 2003/04 to 3.400 MMT because of the continued decline in the production of bread quality wheat. Total wheat imports in MY 2002/03 are expected to decrease to 3.200 MMT because of the slight increase in domestic production. For MY 2001/02, imports are revised downward to reflect final government data.

In MY 2003/04, exports of durum wheat are forecast to fall to 500,000 MT, due to expected lower production and increased domestic consumption. In MY 2002/03, exports have been revised upward, due to attractive export prices. For MY 2001/02 exports were revised upward to reflect final government data.

Stocks

Ending stocks are forecast to be around 231,000 MT for MY 2003/04. 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 2002/03 are estimated to fall to 531,000 MT as exports increase and imports decrease. Ending stocks for MY 2001/02 are revised downward to reflect final government data.

Policy

Removal of the U.S. import tariffs on Mexican wheat will not 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.

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 phyto-sanitary regulations do not impede the grain trade between our countries.

RICE

Production

Rice production for MY 2003/04 is forecast slightly upward from the previous year's revised estimate, due to expected incentives from the Mexican government. MY 2002/03 production is estimated to decrease to 104,000 MT (milled basis), due to less area planted and lower

yields from reduced inputs. Additionally, domestic production costs, lack of adequate government support, and excessive competition from imports are the primary factors behind the decrease in production.

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 gradually decline or remain stable, in the next few years.

For MY 2003/04, crop area is forecast downward from the previous year's revised figure by 9.6 percent, due to highly competitive imports from the United States. Crop area is estimated downward to 57,000 hectares for MY 2002/03, a decline of 22.8 percent from our previous estimate, due to excessive competition from imports and lack of timely government economic assistance.

Given that most rice production in the major growing regions is irrigated, average yields are expected to remain at about 4.5 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 2003/04, 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 2002/03 is estimated upward by 1.3 percent. Consumption for MY 2001/02 is revised upward to reflect final government data.

Trade

Rice imports are forecast upward for MY 2003/04, primarily as a result of the drop in production in MY 2002/03 and lower beginning stocks. Imports for MY 2002/03 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.

Stocks

Ending stocks are forecast to continue downward for MY 2003/04 to 243,000 MT. Rice mills generally keep between one and two months supply of imported rice in stock. 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 2002/03 are estimated upward from our previous estimate, due to increased imports. For MY2001/02, ending stocks were revised upward to reflect final government data and larger beginning stocks.

Policy

As of January 1, 2003, and in keeping with NAFTA, there are no import duties on imports of rough and milled rice from Mexico's trading partners, Canada and the United States.

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

Total Mexican corn production in MY 2003/04 (Oct/Sept) is forecast to increase to 19.00 MMT (million metric tons), due to increased harvest area and the assumption of normal weather conditions. The factor most affecting total corn production in 2003/04 will continue to be weather, as most of the producing areas are dependent upon rainfall. Due to more recent information from private and official sources, we reduced our estimates for corn production and harvest area for MY 2002/03.

In Mexico two crops of corn are grown annually: a spring/summer cycle and a fall/winter cycle. The five states accounting for the majority of the spring/summer corn production are Jalisco, Mexico, Michoacan, Chiapas, and Puebla. Between 90-95 percent of corn production is grown in the spring/summer cycle and harvest takes place 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 and 40 percent of this is irrigated.

According to preliminary official information, production of corn in Puebla declined by over 30 percent in 2002 spring/summer crop (646,000 MT) compared with the initial estimate. The main part of the decline is attributable to the 144,000 ha damaged by the dry weather in the corn production areas, which reduced the yields used for the original estimate. Approximately 90 percent of Puebla´s crop area is non-irrigated. Similarly, lack of rain in the 2002 spring/summer crop (harvest in fall/winter) in Oaxaca decreased corn production in that state by over 20 percent.

In Jalisco, however, harvesting of the 2002 spring/summer crop has been practically completed, and preliminary information indicates that corn production reached 2.850 MT, 13 percent higher than the 2001 spring/summer crop, which was considered a record crop at that time. The favorable weather conditions and timely rains across the state of Jalisco's corn areas explain this increase. Average yields for 2002's spring/summer crop in Jalisco have increased slightly, from 4.6 MT/ha. compared to 4.5 MT/ha. a year ago. Approximately 95 percent of Jalisco's crop area is non-irrigated.

In an attempt to influence production patterns of yellow corn in the 2002 spring/summer crop cycle, SAGARPA officials agreed with Jalisco growers to produce approximately 250,000 MT of this variety. To do this, SAGARPA encouraged starch manufacturers to enter into forward contract purchases. According to industry sources, however, just 130,000 MT were produced, of which the starch industry purchased approximately 60,000 MT and the feed industry purchased the rest. Industry sources indicated that a similar program is expected to be carried out for the upcoming 2003 spring/summer crop.

It should be noted that total production for the 2002/03 fall/winter corn crop is estimated at 2.7 MMT, according to official sources. This would be a decrease from last year's 4.0 MMT, due to the extremely low reservoir levels, mainly in Sinaloa´s dams such as Lopez Mateos

and Miguel Hidalgo. According to the National Water Commission, currently the reservoir levels in the northwest region of Mexico are approximately 50 percent lower than a year ago. Sinaloa is the main source of commercial white corn in Mexico during the spring and summer months, representing approximately 17 percent of total corn production. It is produced largely under irrigation. Harvest is expected to occur in May-June.

The general quality of the 2002 spring/summer is reported to be average, due to normal weather in the main producing areas. The quality of corn grown in the north for the fall/winter season, however, is expected to be below average, due to abnormal weather conditions.

In CY 2002, the rate of increase in the cost of farm input prices was approximately 11 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 large part on the level of technology used.

National average corn yields are forecast to remain unchanged at approximately 2.5 metric tons per hectare for MY 2003/04. Yields continue to vary significantly among Mexico's various regions, depending in large part on the level of technology used.

Production Policy

The Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) announced on December 4, 2002 in Mexico's Federal Register (*"Diario Oficial"*) a support for the corn producers to promote forward contract purchases. The total volume subsidized is 400,000 MT for spring/summer 2002 crop cycle, with a maximum payment of 250 pesos per ton.

On December 31, 2002, SAGARPA announced in the "Diario Oficial" a support for the storage cost ("pignoracion") of white corn in Jalisco, Michoacan, Guanajuato and Nayarit. The supports will be applied only for the 2002 spring/summer crop (harvest in 2002/03 fall/winter). The objective is to provide monthly payments per ton during four months of 2003: January (42.4 pesos/MT); February (72.79 pesos/MT); April (133.59 pesos/MT) and May (103.19 peso/MT). The supports are managed by ASERCA, which is SAGARPA's decentralized administrative body providing commercial support to farmers. The breakdown of the total volume to be supported by state and its estimate production for the 2002 spring/summer crop are as follows:

State	Total Volume Subsided (1000 MT)	Current Production Estimate* (1000 MT)
Jalisco	194.00	2,857.14
Guanajuato	25.00	1,205.63
Michoacan	25.00	1,394.90
Nayarit	6.0	168.32

* 2002 spring/summer crop.

On December 31,2002, SAGARPA also announced in Mexico's Federal Register (*"Diario Oficial"*) a support for the corn producers in Chihuahua and Chiapas. The breakdown of support per metric tons and the total volume to be supported by state are as follows:

State	Payment per Metric Ton (Pesos)	Total Volume Subsided (MT)	Variety
Chihuahua	180.00 220.00	170,000 227,000	White Corn Yellow Corn
Chiapas	270.00 280.00	450,000 25,000	White Corn Yellow Corn

On February 20, 2003, SAGARPA announced it will pay producers of corn and other crops (see MX9040) 905 pesos per hectare (US$ 93/acre) during the 2002/03 spring/summer and the 2002/03 fall/winter planting seasons under its domestic support program, PROCAMPO. This payment is 3.5 percent greater than what SAGARPA paid during the same period in 2001/02. The announcement also indicates that farmers with producing areas between one and five hectares will receive 1,030 pesos per hectare (US$ 106/acre).

Consumption

Total corn consumption is forecast to increase to approximately 25.800 MMT in MY 2003/04, based largely on population and gradual economic growth. Historically, corn in Mexico has been essentially a food grain rather than a feed grain. It is a staple in the Mexican diet, with per capita consumption of approximately 126 kilograms per year, mostly in the form of tortillas made from white corn. The expected increase in total corn consumption reflects an increase in both human consumption and feed consumption. The improvement in consumer purchasing power should fuel the increase of tortilla consumption. The consumption estimates for MY 2001/02 and 2002/03 have been revised downward, reflecting lower than previously estimated feed consumption.

Domestic feed demand is forecast at 10.0 MMT for MY 2003. Despite the fact that Mexico's economic growth is, to large extent, based on the growth of its trading partners, mainly the United States, the Mexican feed millers' association expects that feed consumption will increase approximately 7 percent in MY 2003, due to strong demand from the livestock industry. Poultry producers, for example, will continue to prefer yellow corn over the domestically produced white corn. The majority of feed corn is imported 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 MMT. This sector could be classified into two production schemes, commercial and informal, with commercial accounting for more than 70 percent of production. According to industry sources, domestic pork production is expected to grow 2 percent in MY 2003. The domestic feed consumption estimates for MY 2001/02 and MY 2002/03 have been revised downward based on current industry information, reflecting the substitution of corn by imported cracked corn for the livestock sector during these years. According to industry sources, 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 which falls into a separate H.T.S. category and is not subject to the NAFTA TRQ nor the politically-sensitive "cupo" allocation process.

Trade

Total corn imports in 2003/04 are forecast to increase to 7.5 MMT, 7 percent higher than in MY 2002/03. This increase is based on strong demand from the livestock and starch industry. It should be noted that the MY 2003/04 import estimate assumes that the Government of Mexico 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 pass trade-restrictive legislation. Mexican consumers seem to be unaware or disinterested in the biotechnology debate and its potential trade implications. Although a moratorium was imposed on the planting of transgenic corn in 1998, transgenic corn can be imported for food, feed, and processing uses. MY 2002/03 import estimates have been revised upward because of decreased 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, exports estimates for MY 2001 and 2002 have been revised upward, reflecting official data from the Secretariat of Economy (SE) and other sources.

According to the SE, Mexico issued permits resulting in imports of 5.436 MMT of corn in calendar year 2002. The structure of the 2003 NAFTA TRQ (3.262 MMT for the United States) will continue as in 2003 with direct allocations to importers and industries by SE. It should be noted, however, that the GOM again announced new changes in the policy to allocate "cupos", as reflected in the SE´s December 31, 2002 announcement stating the 2003 U.S. import quota as well as the new administration procedures for importers. The new procedures establish two allocations for all the corn-importing industries (starch, cereal, snacks, corn flour and dough industries). The first allocation will be valid from January to March, while the second one will be from April to June. The livestock sector only will have one allocation but with a length of 12 months (Jan-Dec). According to industry sources, the publication of these official rules has resulted in more transparency for industry and importers, although the relatively rigorous requirements have resulted in some 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. Moreover, for CY 2003, the GOM does not have to reduce the out-of-quota quantity of corn imported as the Mexican Congress mandated in 2002 (MX2037).

Stocks

The MY 2002/03 estimated ending stock position has been revised upward due to higher than-previously-estimated imports. Mexico's ending stock position is forecast to reach 3.3 MMT in MY 2003 owing to increased domestic production and imports. Similarly, estimated ending stocks for MY 2001/02 has been revised upward due to lower than-previously feed consumption.

Policy

Since NAFTA was implemented on January 1, 1994, the over-quota tariff on corn has been reduced from 206.4 percent to 90.8 percent and the TRQ has increased from 2.5 MT to 3.263 MMT for 2003. 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 2003 is forecast to decrease at 5.6 MMT assuming a decrease in planting area. Sorghum production is spread throughout the country, with the largest producing states in MY 2002/03 being Tamaulipas, Guanajuato, and Jalisco. Feed manufacturers readily purchase the "Bajio" sorghum crop because of its quality and proximity to demand centers. Moreover, because of transportation and quality issues, feed millers are less aggressive in purchasing the Tamaulipas spring crop. The states of Guanajuato, Jalisco, and Michoacan in West Central Mexico make up the Bajio region, where the bulk of the fall harvest is produced. Some sources, however, expect some shifts towards corn production in the Bajio, due to no expected changes in the price relationships between corn and sorghum, which has been favorable for corn.

For the 2002/03-fall/winter crop, water availability is adequate in Tamaulipas. This may result in an increase in production compared to the preceding year. Approximately 24 percent of the fall/winter crop is irrigated while nearly 45 percent of the spring/summer crop is irrigated.

The overall yield for the MY 2002/03 sorghum crop in Mexico is expected to reach approximately 3.3 metric tons per hectare. Yields are forecast to be similar for MY 2003/04, assuming normal weather conditions. The MY 2002/03 production estimated was revised upward as a result of excellent yield obtained over much of the growing region, mainly in the spring/summer crop. The 2002/03 fall/winter harvest was reported as generally being of good quality, due to timely precipitation in the Bajio.

On February 20, 2003, SAGARPA announced it will pay producers of sorghum growers 905 pesos per hectare (US$ 93/acre) during 2002 spring/ summer and 2002/03's fall/winter planting seasons under its domestic support program -- PROCAMPO. This payment is 3.5 percent greater than what SAGARPA paid during the same period in 2001/02. The announcement also indicates that farmers with producing areas of between one and five hectares will receive 1,030 pesos per hectare (US$ 106/acre).

Consumption

Projected sorghum consumption for MY 2003/04 is expected to increase by 50,000 MT to reach 9.7 MMT, due to increased demand from the livestock sector. The poultry sector outlook, for example, continues to be very optimistic for MY 2003 (see MX 3006). This sector is the major consumer of sorghum.

Trade

MY 2003/03 imports of sorghum are expected to remain unchanged at 3.8 because of the competition with feed corn from the United States. Similarly, imports estimate for MY 2002/03 were revised downward because of the higher than previously expected domestic crop. Also, the MY 2001/02 import estimate has been increased sharply to 5.165 MMT based on official trade data from SE.

Stocks

Ending stocks for MY 2003/04 are forecast to decline by nearly 30 percent because of lower domestic production and imports. The estimates for MY 2001/02 and 2002/03 ending stocks have been raised, based on higher than expected import volumes and production, respectively.

BEANS, DRY EDIBLE

Production

The production estimates for MY 2002/03 as well as the harvested area estimates were revised upward. This change reflects the most recent SAGARPA data, which includes an update for the 2002/03 fall/winter harvest and a preliminary estimate for the 2003 spring/summer harvest. The main reasons for these changes were an increase in harvested area and above-normal precipitation, which provided abundant soil moisture in the spring/summer 2002 crop cycle. SAGARPA officials stated that the MY 2002/03 dry bean crop reflects a record crop year. Private and official sources stated that the crop was the best seen in the past 15 to 20 years. Rain was plentiful and timely and the planting of beans is estimated to have increased from 20 to 25 percent. For MY 2003/04, the initial forecast of total Mexican dry bean production is 1.2 MT. The main reason for this slight decrease is a smaller harvested area. This forecast reflects a normal bean crop that would result from normal weather conditions.

FAS/Mexico uses official Mexican government statistics for historical purposes. Thus, production and harvested area were increased slightly for MY 2001/02 to 1.263 MMT and 1.8 million hectares, to reflect final Mexican government data.

Industry sources estimate that the 2002/03 fall/winter harvest could produce approximately 1.1 MMT of edible dry beans. In the previous crop, Mexico harvested 828,000 MT. This increase will be possible because of ample and timely 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 31, 2003, 765,140 ha. had been harvested represented 98 percent of the total planted area. Zacatecas production is expected to reach approximately 540,000 MT, approximately 80 percent more than the year before. According to official sources, this production was broken down into approximately 45 percent blacks, 45 percent “flor de mayo” and “flor de junio” varieties; the remaining 10 percent was pinto beans.

Production in Durango, the second most important dry bean producing state, also increased approximately 60 percent, due to good weather and timely rainfall during the growing season. Sources indicated that for 9 out of the past 10 years Durango had suffered drought conditions, but this was not the case for MY 2002, which is promising to be the best dry bean crop in the last 15 years. Yields were also said to be well above normal for this crop, averaging 0.670 MT/ha. compared to 0.440 MT/ha. one year earlier. Production is forecast at 183,000 MT, with approximately 60 percent of the crop being pinto varieties, 20 percent black beans, and 20 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.

However, Chihuahua growers were disappointed with the spring/summer 2001 crop in their state, the third most important dry bean producing state. Crop conditions during growing season were affected by drought and contributed to bad yields. SAGARPA reported that of the approximately 92,000 has. to be harvested, 60,000 MT are expected to be produced,

mostly of the pinto varieties. Average yields are expected to be approximately 0.569 MT/ha. compared to 0.701 MT/ha. during the previous year.

For the 2003 spring/summer harvest, Nayarit reports a dry bean planted area of 68,528 ha. with an expected production of 74,737 MT, out of which approximately 60 percent are Jamapa Black. The rest of the production will be comprised of Azufrados, Mayocobas, and other clear and pink varieties.

In Sinaloa, SAGARPA reports a total bean planted surface of 147,455 ha, from which 89 percent is irrigated and the remainder is not. The expected production for the 2003 spring/summer is of 209,000 MT, out of which less than 10 percent is comprised of black bean varieties; the Azufrados, Peruanos and Mayocobas varieties account for the rest. The harvesting season, which started in mid-January, must cover approximately 18,000 ha. According to SAGARPA officials, production obtained as of February 4, 2003 was 24,791 MT; the average yield was 1.5 MT/ha in the irrigated areas and 380 Kg/ha in rain-fed areas. The low yields obtained are due to low temperatures at night and high temperatures during the day.

PROCAMPO payments for the fall/winter 2002/03-crop cycle will be 905 Pesos/Ha. (US$ 93/acre). Dry bean growers with producing areas of between one and five hectares will receive 1,030 pesos per hectare - US$ 106/acre - (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 2002 spring-summer cycle harvest period (Oct.- Dec.) was favorably dry for harvesting and allowed for higher yields than were preliminarily forecast. The overall yield for the MY 2003/04 dry bean crop in Mexico is expected to reach about 0.700 MT/ha. practically unchanged from the average yield obtained in MY 2002/03; 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.

As a result of good crop yields and production, grower prices have decreased compared to the year before. Farmgate prices in Zacatecas for Flor de Mayo are between 3.00-3.50 pesos/kg (approximately US$0.12-0.15 per pound), considerably lower than a year ago (6.50-7.00 pesos/kg - US$0.27-0.29 per pound). At the same time, the price paid for black beans is now at 3.20-5.00 pesos/kg (US$0.13-0.21 per pound), compared to the 7.00-8.00 pesos/kg (US$0.29-0.33 per pound) that black beans were selling for last year. Moreover, Zacatecas still has a stock of 180,000 MT of dry beans, which has to be traded (approximately 50 percent blacks and 50 percent clear beans). According to SAGARPA officials, these volumes are from producers that have the capacity to store their product until they can get better prices.

Consumption

The forecast for dry bean consumption in MY 2003/04 is 1.250 MMT, an increase of approximately 4.1 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 14/kg per year. This office revised upward the MY 2001/02 and 2002/03 consumption estimates, 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. Lower income consumers also increased consumption as result of the economic slowdown.

Trade

Imports are forecast to decrease to 60,000 MT for MY 2003/04, based on large carryover stocks. Carryover stocks are expected to increase significantly because higher than expected production in MY 2002/03. This office adjusted upward import estimates for MY 2002/03, according to preliminary SE official data and private sources.

Growers have complained that high inventories in CY 2002 have caused significant financial losses and they are worried about how the expected record fall/winter crop for 2002/03 and the upcoming 2003 spring/summer crop will further lower prices. At the same time, some bean grower organizations have increased their complaints about allegedly illegal imports, maintaining that there is a huge surplus of domestic dry beans to be marketed first. The GOM has recognized that the current low bean prices and oversupplies are a problem and has stated that they would be reevaluating the administration of dry bean import permits (cupos).

Industry sources, however, indicate that the depressed domestic dry bean prices and the increasingly heated political climate in the lead-up to this year's gubernatorial and mid-term congressional elections, are the main factors impacting the flow of bean imports.

Stocks

The ending stocks estimates for MY 2001 and 2002 have been increased because of higher than expected production in both years. For MY 2003, ending stocks are forecast to decrease slightly to 555,000 MT as production and imports decrease.

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 2003, duty-free access to the Mexican market is set at 65,238 MT. The over-quota tariff is 58.7 percent for 2003. 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 1,957 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.

On January 22, 2003, SAGARPA temporarily suspended the importation of U.S. and Canadian dry beans after asserting that it did so due first to concerns about the phytosanitary risk associated with dry beans smuggled in from third countries under the NAFTA duty, and then later due to concerns about underinvoicing. As of the writing of this report, SAGARPA was still temporarily suspending the entrance of U.S. and Canadian dry beans into Mexico.