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The Mexican Avocado Industry Through the Eyes of a California Grower

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Since the peso devaluation of 1995, the Mexican avocado industry has gone through a number of important changes. Foremost among these is the partial lifting of the 1914 quarantine barring Mexican avocados from the United States. Other important changes include the extension of the Japanese export season, and the predominance of foreign owned packing companies in the export sectors.

Avocado Society members have been aware of the Mexican avocado industry for years; wary of both the quarintanary pests that threaten their groves and the sheer volume that threatens markets which took a long time to build. Recently introduced pests in California such as the Persea mite and Scirtothrips make American growers particularly sensitive to the former. Several other essays have described the expansion of the Michoacan industry and the fact that over ninety percent of the avocados are consumed within Mexico itself. This paper will describe the importance of the export sector to the Mexican avocado industry and the changes it is going through.

I first arrived in Uruapan in July 1990, when the export sector was still in its infancy. Like California, Michoacan had a planting boom in the 1970's. Theirs carried on through the 1980's and into the early 1990's. Mexico had an unsophisticated but impressive produce distribution system. Unsophisticated because it consisted of a large number of small shippers sending fruit to different markets with no knowledge of production levels, harvest rates, or industry inventories. This product was shipped to a domestic retail industry where consumers bought their fruit and vegetables from small independent vendors not unlike a farmer's market or swap meet. This system was impressive insofar as it moved over one billion pounds of avocados annually. It did this in a country with only 80 million people. It did this without spoilage and most importantly, it did this while returning a profit to the grower.

As production levels reached the two billion-pound mark, an export sector began to be developed. It began by sending fruit to Europe, primarily France, during the early fall when a window of opportunity existed between the South African export season and the Israeli/Spanish avocado seasons. The export sector started small with just a couple of cooperatives and some family-owned operations run by large growers. This effort was expanded in the late 1980's when some California avocado handlers arrived seeking fruit sources to keep the Japanese market supplied when California volume was low. Although small, this sector of the industry was important for bringing higher prices and foreign capital into the country,

I returned again to Michoacan in 1995. By then the export sector had grown to approximately 50 million pounds per year. Uruapan avocado shippers had become more organized and had instituted the Michoacan Avocado Packer and Exporter Association (ASEEAM). Grocery chains begin to slowly replace open-air markets and a processing industry was buying significant amounts of fruit. The cooperative attempts had all but failed, leading to an industry of independent handlers. The exporters were a small, socially tight knit group of eleven shippers with only one foreign company involved. France continued to be the principle receiver, and exports were largely seasonal. The 1995 peso devaluation changed all that.

It is important to note here that the system of paying growers according to size and grade in a pooling system has been completely foreign to the Mexican avocado industry. Because a number of packing companies have gone out of business while owing growers large sums of money, and growers have traditionally felt taken advantage of by packers, a high level of distrust exists between farmers and packers. Fruit purchases are done almost exclusively on a cash basis with packers offering a firm price per kilogram for all the fruit harvested. This places a tremendous amount of risk on exporters shipping to Europe or Asia who must price fruit that will not be sold for three to four weeks.

During the 1995/96 season export volumes increased dramatically, as did the number of exporters. A large crop and weak peso made Michoacan exports very attractive. Volumes doubled to just under 100 million pounds. From season opening to finish, the number of exporters grew from 11 to 29. Unfortunately Spain and Israel also had large crops, and the three countries together flooded the European market. Unscrupulous French buyers continued to place orders for Mexican avocados. These orders were shipped on consignment with a theoretical minimum guaranteed price. This guarantee was often ignored by receivers citing impossible market conditions. As a result, many exporters buying fruit on a cash basis and shipping on consignment were effectively squeezed out of business.

In many respects, the 1996/1997 season was a repeat of the previous season. Shipping levels remained in the 100 million-pound range. Although volume to France was lower, shipments to other markets increased. Central America became an important Mexican avocado customer. Small crops in California caused Mexico's market window in Japan to extend from a few months to year-round. Some local shippers went bankrupt, but there was no shortage of optimistic newcomers willing to take their place. By year-end, ASEEAM had forty-eight members quoting a limited number of buyers in the various countries with a developed avocado market. Two of these new members were French-owned companies hoping to gain better control over their supplies.

During the 1996/97 season, the USDA announced that it would partially lift the eighty-three year old quarantine of Mexican avocados in the United States. Industry leaders in Uruapan received this news enthusiastically, but with a certain level of caution. Gaining access to the US was one area where both growers and shippers had worked together. They knew that their shipments would be closely monitored from the field to its final destination and that any breaches in the work plan could possibly shut down the program indefinitely. Because of this cautious optimism, a heretofore-unseen level of cooperation developed among the growers of Michoacan.

When analyzing the difficulties of the 1995/96 and 1996/97 seasons, marketers decided that two problems, which added to their difficulties, included cash purchases in.the field and too many shippers. A large number of the growers with groves certified to export fruit to the United States formed a marketing association as an attempt to remedy these problems. This group, *Aguacateros de Michoacan Mexico* (AMIMEX), was successful in handling eighty percent of the fruit during the first season. Instead of paying growers a firm piece at time of harvest, they promised a minimum guaranteed price and would pay a final balance according to the results of actual sales. AMIMEX established only two brands in order to take maximum advantage of their market position and ran a limited avocado promotion program in the Northeast. At the end of the season they returned to their growers an average of US$0.67 per pound. These returns bolstered local optimism that access to the "lucrative" US market would solve their financial worries,

The first season was largely considered a success. Manageable volumes (thirteen million pounds) in relatively few hands helped to minimize market difficulties. Cautious industry leaders followed the USDA avocado export work plan to the letter, and developed an atmosphere of mutual respect with the USDA inspectors. Experienced California avocado handlers marketed most of the volume, ensuring a smooth transition from California and Chilean supplies to Mexican fruit in the northeastern markets. Following historical market trends, the market opened strong in November and steadily declined through February. When the season opened, size 48 Mexican avocados sold in the $45 per lug range. By March the price had declined to the $26 range. Despite a few difficult weeks when shippers sent more fruit than the market could handle, the season was viewed positively by most of the people involved. Avocado grove values increased from $4500 per acre during the 1995 peso devaluation, to over $10,000 for groves approved to ship fruit to the US. Michoacan leaders were anxious to approve more local groves and extend their access to the US market.

However, despite these record returns, not all growers were entirely pleased with their payments. AMIMEX pooled their returns over the entire four-mouth period. This angered some growers who had shipped their avocados early in the season when the market was at its peak. As a result of this problem over payments, AMIMEX grower support slowly disappeared before the beginning of the second U.S. export season.

The dynamics of the Mexican avocado industry continue to change. They are no longer dependent on the French market as their primary source of income. Their window to Japan has broadened from a few months per year in the early 1990's to year-round shipments today. The export sector is no longer run by a small group of inexperienced local businessmen. Foreign companies with financial resources and market expertise now dominate the export sector. Today exports, be they fresh or processed, consume over ten percent of the annual crop and are shipped year-round to a variety of destinations. The experience gained from past lobbying efforts in the United States, as well as the scientific data gathered by USDA inspectors, will make Mexico a formidable competitor in the US avocado market. The stereotype of Mexico as a large avocado producer, but naïve marketer, no longer applies. In order to be competitive, California growers must understand these changes, and the challenges they represent.