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The second Year of Mexican Hass Exports to the United States

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In September 1998, the fast approaching second season of Mexican avocado imports promised to present a series of daunting challenges. Low volumes and a limited number of handlers together made the first season a relative success for growers on both sides of the border. Avocado farmers in both California and Michoacán received near record returns for their fruit. The second season promised to be much larger and more complicated than the first. The number of approved groves grew four-fold to 250. The number of approved acres increased from 3700 to over 10,000. Although a series of cold fronts had decreased Mexico's avocado crop, there would be much more fruit available than during the initial season.

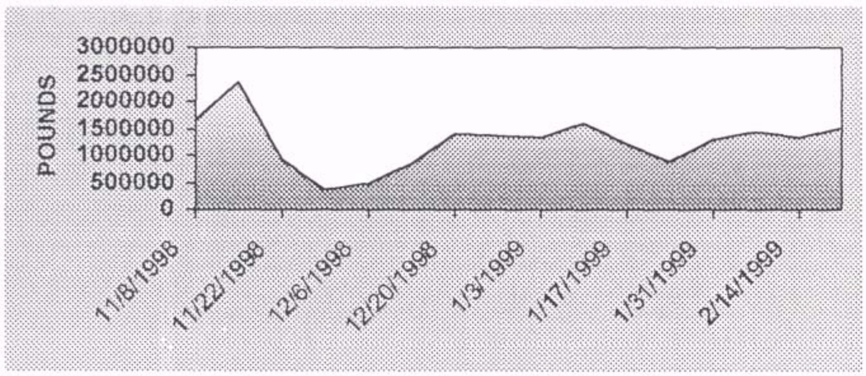
In addition to the increase in approved orchards, several other factors complicated the situation. The number of approved packers increased from five to fourteen, diluting volume control. Meanwhile, Chile was on track to ship three times more avocados to the United States than ever before. Three important factors of the second season which help us to understand its implications for the future are; its seasonal progression, changes within the Mexican industry, and the intensification of lobbying efforts to broaden Mexico's market penetration.

Traditionally avocado prices in the United States decrease between November and February as old-crop fruit works its way out of the system and new-crop harvests steadily increase. Cognizant of this historical trend and the fact that it held true for the 97/98 season, Mexican growers and packers both wished to ship heavy volumes in the initial weeks of the program. However, large Chilean shipments, coupled with a late start for California 'Hass' (due to El Nino and scirtothirps) caused the November-February market decline to be less steep than in years past. In fact, most of January was a rising market!

Wishing to capitalize on what they believed to be the top of the market, Mexican packers shipped over 4 million pounds to the 19 northeastern states during the first two weeks of November. This caused the market to crash to levels, which made exports to the USA unprofitable. The frost damage in Michoacán decreased the avocado crop by approximately 30% (Vega, 1998). As a result prices on the domestic market were higher than they had been in years. In November, traditionally one of the heaviest shipping months, growers were receiving only about $0.20/pound for their fruit. As the US market price fell below $15.00/lug shipments slowed to a trickle (Figure 1). In fact, some shippers actually cancelled shipments that had already crossed the border. This fruit was brought back to Mexico to be sold in their domestic market. Many growers also gambled that the late Spring Mexican market would pay higher prices than the winter

US market. This gamble paid off with growers receiving well over $1.00/pound in April and May. These factors helped to limit the amount of fruit shipped to the United States.

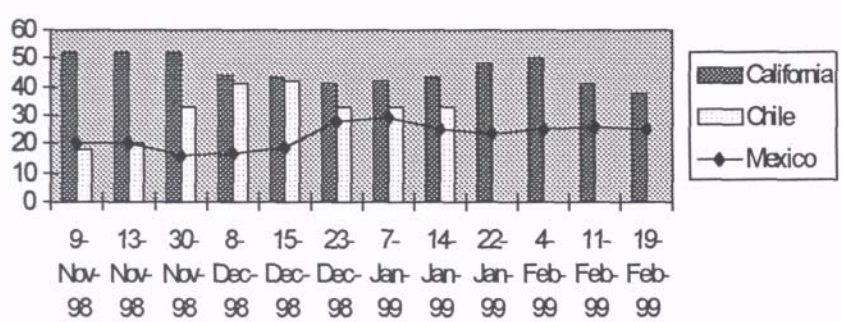
Figure 1. Mexican shipment levels to the USA



(Salgado, 1999)

After the mid-November market drop Mexico drastically curtailed shipments. In December export levels rose to approximately 1.3 million pounds/week, and stayed there through February (Figure 1). This helped to strengthen and stabilize prices (Figure 2). The second half of the season was also strengthened by the fact that 68% of the fruit was handled by companies which also handle California and Chilean avocados. During the first several weeks of the season, brokers inexperienced with the avocado market handled much more fruit. At the end of the season Mexico shipped just over 21 million pounds to the United States, 62% more than the previous season's 13 million pounds. Although three-times as many acres were approved for the United States, volume was controlled by frost damage, which lead to an unseasonably high-priced Mexican domestic market.

Figure 2. Price levels for size 48 Mexican, Californian, and Chilean Hass.



(Calavo Growers, 1999)

A number of changes occurred within the Mexican avocado industry in 1998. The marketing association, *Aguacateros de Michoacán Mexico* (AMIMEX) that dominated the first season with 80% of shipments was greatly weakened. Many growers, unsatisfied with the first season's pooling system, opted to ship fruit through independent handlers. Nevertheless, AMIMEX claimed to have contracts with 50% of the approved orchards at the outset of the season. By year-end however, their market share fell to less than 20%. This disintegration was quickened by uncompetitive returns provided by the brokers with whom they did business.

The erosion of AMIMEX's grower base coincided with an increase in firm-price field purchases. AMIMEX had been instrumental in introducing consignment field purchases to the Mexican avocado industry. For all other markets, including the Mexican domestic market, field purchases are done with a fixed price for all fruit harvested. The idea of pooled payments based on size and grade was heretofore virtually unknown in Michoacán. With the re-introduction of firm prices, risk was shifted from grower to packer.

The dominance of foreign owned export companies continued to grow in Uruapan. In 1994 there was one foreign company packing fruit in Uruapan, accounting for less than 10% of all exports. By 1996 there were three such outfits, making up over 30% of all shipments. By 1998 the top five shippers were foreign owned, and accounted for over 60% of export volume. The globalization of the produce industry is very visible in Michoacán. This development is a commentary on the importance of year-round market presence in today's world of retail consolidation. It also indicates the high risk involved when purchasing fruit for a fixed price and selling on consignment.

Mexico continues to lobby for increased market access to the United States. Their scientific argument is strengthened by USDA's presence in Michoacán. After two export seasons USDA employees have cut open over 2.2 million avocados without finding a single actionable pest at the packinghouse level (California Avocado Commission, 1999). Although the introduction of persea mite and scirtothrips to California avocado groves in recent years reveals the severe consequences of foreign pest invasions, these pests were not included in the quarantine against Mexican avocados.

Avocado demand is on the rise in the United States. Strengthened by a strong economy, California growers continue to receive record returns for their fruit. This prosperity continues in spite of two years of Mexican imports and record three-fold increase in Chilean shipments. It is important, however to put these returns into the proper context. Mexican fruit, not only in the 19 northeastern states for four months, but in Canada and Japan on a year-round basis, has effectively displaced California fruit. Imports have risen from less than 10% of 'Hass' sales in the United States in 1993, to over 30% of 'Hass' sales in 1998. Aggressive plantings in Chile, the Dominican Republic, and New Zealand, coupled with Mexican lobbying initiatives, ensure that offshore supplies will continue to increase. As demonstrated in 1998, historical market behavior cannot adequately predict the future. California growers must be proactive in meeting the challenges and opportunities which increased imports provide.

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