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Mexican Chile Pepper Industry Faces Mixed Prospects

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The Mexican chile-pepper industry is facing a mixture of good and bad news, with habanero producers in Yucatan and the southeast thriving, but pepper growers in other regions of the country forced to contend with increased competition from China, India, Peru, and other countries. Mexico is the world's second-largest producer of chile peppers with a planted area of about 168,000 hectares.

Annual production in recent years has ranged between 1.4 million and 1.8 million metric tons. Total production is valued at about 7 billion pesos (US$651 million) annually, said the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA).

Mexican chile production is distributed through various geographic regions, with Zacatecas accounting for the lion's share of the guajillo peppers produced in Mexico. Jalapenos are grown primarily in six states: Chihuahua, Sonora, Sinaloa, Veracruz, Quintana Roo, and Campeche. Durango, Guanajuato, and San Luis Potosi account for a large share of Mexico's production of ancho peppers, while serranos are grown in Nayarit and Tamaulipas states.

Habanero exports benefit from strong Japanese demand

The habanero industry concentrated in Yucatan, Campeche, and Quintana Roo continues to expand production to meet a rapidly growing export demand for powdered and dried habaneros, particularly in countries like Japan and the US. Habanero exports resulted in gains of 24 million pesos (US$2.2 million) for the economy of Yucatan last year, said a study conducted by the economics department at the Universidad Autonoma de Yucatan (UADY). This translates to nearly 70,000 pesos (US$6,520) per ha, compared with about 48,000 pesos (US$4,470) per ha in 2003, said the study.

The strongest demand for habanero powder is from companies like Japan's Tohato, which are using the Mexican product to produce a wide variety of spicy snacks. "In 2005, [Japanese companies] asked us to double our shipments," said Juan Carlos Ledon, director of the Yucatan-based Promotora Agroindustrial de Yucatan (Padysa).

The strong demand for habanero products has raised concerns that local producers may not be able to supply enough chiles to allow companies like Padysa to cover all their orders. Ledon said there was sufficient demand for Padysa to export about 70 MT of habanero powder in 2005, but the lack of chiles has kept shipments low. "We have only shipped about 10 MT," said Ledon. There are some concerns that other countries like China could step in to meet the demand for habanero powder in Japan.

At present, China does not produce the volume of habaneros to meet the need but has significantly increased production of other chile products. China already has displaced Mexican chiles in the US market and has even seized some of Mexico's domestic-market share. "The fear is that [China] will..."
reproduce more [varieties of] chiles," said Carlos Armando Zarate, an official at Guadalajara-based Spices Moy, a leading chile distribution company. Spices Moy imports chiles de arbol from China but also exports a variety of chiles to the US from its operations in Zacatecas and other states.

**Chinese imports displace Mexican dried chiles**

While China has yet to make inroads in the habanero market, that country has displaced Mexican sales of dried chile de arbol on the global market and even within Mexico’s domestic market. By some estimates, Mexican domestic and export sales have declined by 30% since the early 1990s because of increased competition from China.

Chinese suppliers have begun to export other popular chile varieties to Mexico, including a variation of the mirasol and ancho peppers that are used in popular dishes such as mole. Some varieties of ancho and guajillo chiles are also being imported from countries like Peru. Chinese chiles have gained market share in Mexico because they tend to sell at a lower retail price, even with a 20% duty applied on imported pepper products.

Chinese producers may be bypassing the duty by shipping their products to Mexico via the US. Mexican imports of dry chiles from the US totaled US$13.5 million in 2004, 13 times higher than in 1990, Mexican government statistics indicate. Industry sources say imports account for 50% to 80% of the dried chile peppers sold in Mexico.

Conversely, Mexico has failed to take advantage of a surge in US demand for chiles, where imports have doubled during the past decade. Rather than increase, Mexico's share of the chile market has fallen sharply in the last five years. In 2004, Mexico accounted for only about 16% of US chile imports, compared with almost 33% in 1999.

"We have gradually been losing the captive market we once had in the US," said Juan Manuel Gochica, president of the Consejo Nacional de Productores de Chile (CONAPROCH), Mexico's largest chile-growers organization. "There are now only three or four companies that export [chiles] to the US." China, which has a lower cost of production because of the abundance of cheap labor, has also displaced imports from India in the Mexican market.

Some US buyers said Mexican exports are also influenced by a volatile market. "When there's any kind of shortage in Mexico, their Mexican market price goes up to absurdly high levels," Tim Bolner, manager for Texas-based Bolner Products, told The San Antonio Express-News. The loss of domestic and international market share has caused Mexico's planted area to decline during the last decade. "We are importing about 260,000 MT of chiles annually, which means that we have reduced the planted area by about several thousand ha," said Juan Manuel Gochica, president of the Consejo Nacional de Productores de Chile (CONAPROCH). "Our losses are tremendous."

Mexican government officials are keeping an optimistic outlook in the face of the increased competition. Speaking at the Second International Global Chile Convention in Zacatecas in August, deputy agriculture secretary Francisco Lopez Tostado cited the prospects for increased global demand for chiles in coming years. "Chiles are one of those food products that have a bright future," said Lopez Tostado. [Note: Peso-dollar conversions in this article are based on the Interbank rate..."
in effect on Sept. 7, reported at 10.73 pesos per US$1.00] (Sources: Presidencia.gob.mx, 05/15/04; El Universal, 01/12/05; Notimex, 07/02/05; The San Antonio Express-News, 08/08/05; Cambio de Michoacan, 08/10/05; E-Once Noticias, 07/15/05; El Sol de Zacatecas, 08/02/05, 08/16/05; El Diario de Yucatan, 08/08/05; La Jornada, 08/17/05, 08/27/05

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