

## **APEAM 2018: FACING NEW CHALLENGES IN THE MEXICAN AVOCADO PRODUCTION AND EXPORT <sup>1</sup>**

At the beginning of March 2018, the Board of Directors of APEAM (the Mexican Association of Avocado Producers and Packers/Exporters) was facing one of the most complex situations in its history.

The members of APEAM were producing and exporting practically half of the avocados sold around the world. They provided 80% of avocado imports to the US, the largest consumer of this product in the world, as well as for 61% of consumption in Mexico, the second-largest market<sup>2</sup>.

Despite the increase in price and volume that had taken place since the start of exportation to the USA, some of the producers had held strikes in 2016 and 2017 due to discrepancies in pricing and distribution of profit. According to some of the association's members, this could put the future of the American market in danger and affect the future of the industry and APEAM itself. There were two issues that exacerbated this situation. On one hand, a few months earlier, the US had opened the way to avocado imports from Colombia to prevent the decrease in Mexican avocado imports from affecting the domestic market and avoid excessive price increases. On the other hand, they were still waiting on the results of the negotiations with the Trump Administration regarding the North American Free Trade Agreement (NAFTA). On multiple occasions, Trump had displayed a willingness to impose strict tariffs on Mexican products imported to the United States, including avocados.

Despite all this, avocados continued to be very profitable for producers and packers, more so than other agricultural products. Nevertheless, as pointed out by an APEAM

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<sup>1</sup> This case has been published by the Research Division of Instituto Internacional San Telmo, Spain. Written by Professor Antonio Villafuerte Martin of Instituto Internacional San Telmo. This case is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.

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<sup>2</sup> In March of 2018, the producers and packers associated with APEAM came only from the state of Michoacán, which until that time had been the only Mexican state authorized for export since avocado imports to the United States began.

representative, *"we cannot rest on our laurels; these issues could be a sign that we need to start changing."*

Since its founding in 1997, the purpose of APEAM had focused on providing the necessary services for exportation to the USA (they were the only Mexican cooperating partner of the USDA, the United States Department of Agriculture, for the exportation of Mexican avocados to the USA), promoting Mexican avocados (mainly in the USA and other countries under the brand *Avocados from Mexico*), and other industry services, such as developing and harvest prediction system and several R&D projects.

At that moment, however, there was one central question going through the heads of the members of the board: What should APEAM's role be in this new competitive and productive stage for the Mexican avocado?

Several members of the APEAM board believed that the operational model of the association had gone quite well over the course of its 20 years of history and only required some changes to avoid conflicts like the recent strikes that had prevented producers from completing the harvest and held up shipments.

However, other members of APEAM believed that it was precisely in moments like that one, with adequate yields and high demand for exports, when they should carry out some necessary changes. These included preparing the sector for future growth, improving on returns, and, above all, better anticipate when these types of difficult economic circumstances could appear. They believed that APEAM should play a key role towards promoting and directing these changes, thus developing a new position of leadership within the avocado industry. This would take place not only on the national level, but at an international level as well.

## THE AVOCADO IN MEXICO AND AROUND THE WORLD

Mexico was the largest avocado producer (1.7 million tons over the 2016/17 campaign) and exporter<sup>3</sup> (873,963 tons exported in 2016/17, valued at 2.5 billion dollars, 46% of worldwide production, see Figures 1 and 2). The state of Michoacán was, overwhelmingly, the largest producer in Mexico, responsible for around 85% of national production and a similar amount of exports.

As explained by José Armando López Orduña, managing director of APEAM:

*"Michoacán<sup>4</sup> is the only place in the world where avocados blooms up to four times a year (normally it is only once or twice). For that reason, one of our slogans is 'Always in Season'"*

The members of APEAM were providing around 90% of Mexican avocado exports.

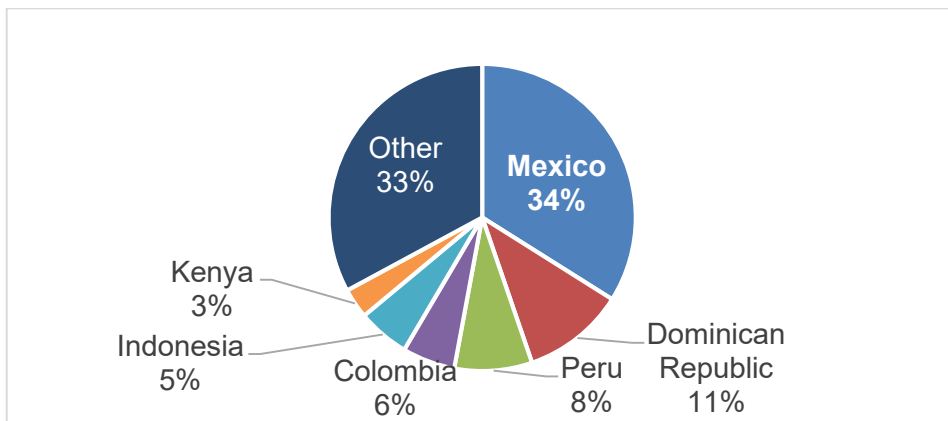
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<sup>3</sup> See Exhibit 1

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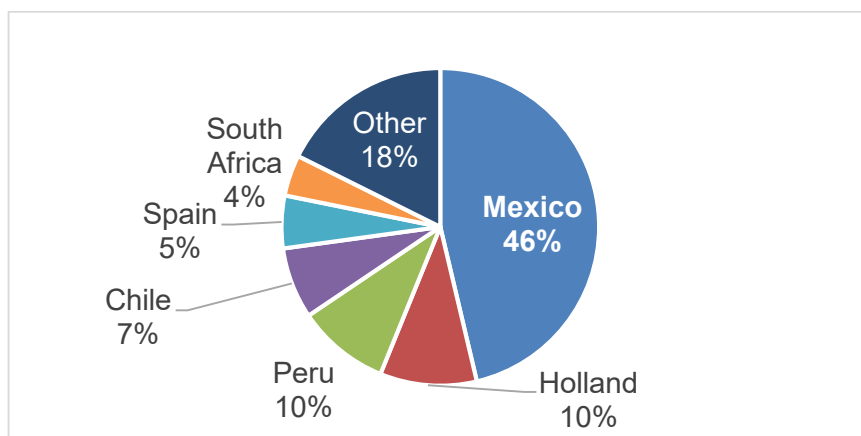
In 2016, worldwide production of avocados reached 5.57 million tons, of which 25% was sold on the international market. In 2000, only 2.7 million tons were produced (Figures 1 and 2).

**Figure 1. International production of avocados 2016 (% of total production)**



Total worldwide production: 5.57 million tons. Source: FAOSTAT

**Figure 2. Worldwide avocado exports 2016 (% of total exports in tons)**



Total worldwide exports: 1.2 million tons. Source: FAOSTAT

The largest importers were the USA and the European Union (Figure 3).