

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Mexico**

### **Dairy and Products Annual**

#### **Mexico Continues to See Increased Demand for Processed Dairy Products**

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**Report Highlights:**

Mexico's commercial fluid milk production in 2017 is forecast at 12.2 million MT, up slightly from 2016. Commercial fluid milk production, while slightly increasing, is constrained by an older herd, lack of organization among small producers, and milk quality issues. Demand for alternatives to fluid milk continues to grow, and production of processed dairy products is increasing. The sector will import substantial quantities of milk powder and cheese to relieve domestic demand from both processors and consumers. Despite competition from dairy-exporting Trans-Pacific Partnership countries and Europe, the United States is expected to maintain its market share.

## Commodities:

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

## Dairy, Milk, Fluid

### Production:

Commercial fluid milk production for 2017 is forecast at 12.2 million MT, marginally up from the new Post 2016 figure, as herd rebuilding and technology continue to lift Mexican milk production levels. However, the sector continues to deal with challenges that prevent producers from being successful. The most important challenges are successful breeding, nutrition management, and older herds with poor genetic quality. This is exacerbated by a lack of organization among small producers, and which in turn, increases the cost of production. The high cost of production and issues of milk quality make it difficult for Mexican producers to compete with international milk prices.

The Mexican Government's livestock program, PROGAN (Sustainable Livestock Production and Livestock Control Program), focuses on improving the productivity of small producers to ensure their presence in the market. Under PROGAN, improvements in hygienic milking practices, the adoption of better techniques during milking, handling, and storage of milk, are promoted to producers. PROGAN also has a long-term objective of enticing producers to improve the genetics of their herd.

Finally, LICONSA<sup>1</sup> will continue buying domestic fluid milk during the last quarter of 2016, and it is estimated that a total of 600 million liters will be domestically purchased in 2016. However, the purchases of domestic fluid milk by LICONSA are less than were expected at the beginning of the year, due to a constrained budget. As such, the commercial fluid milk production for 2016 is kept unchanged.

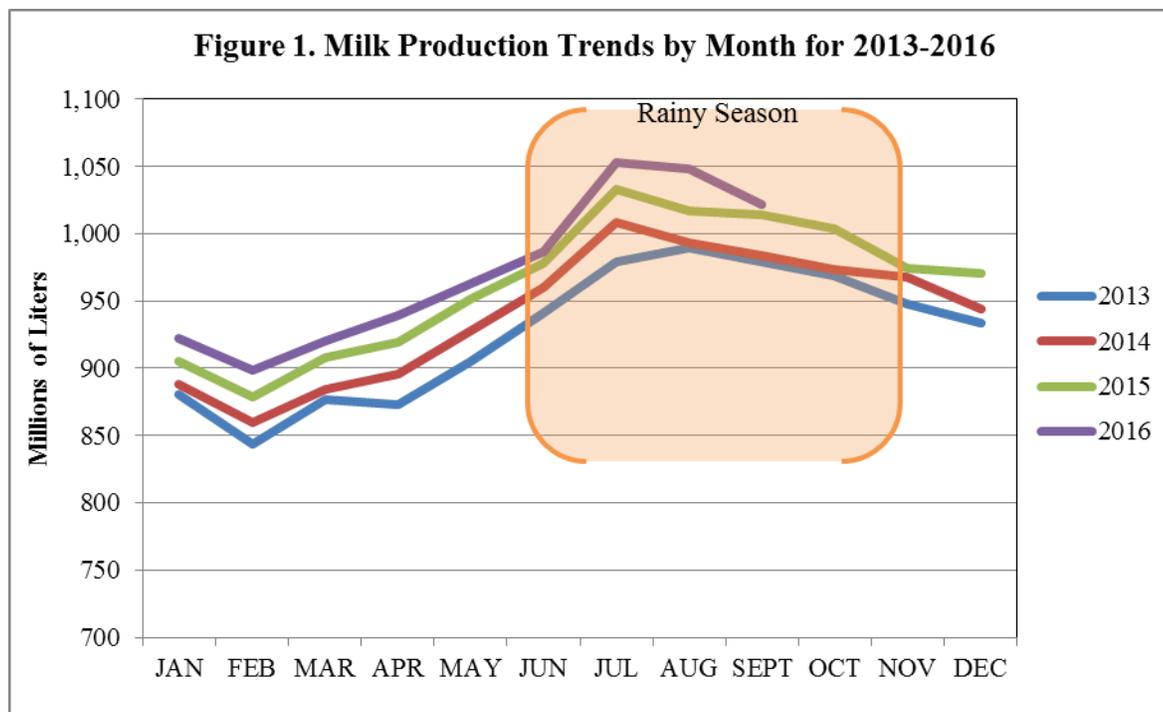
**Table 1. Mexico: Fluid Milk Production Volume by State 2011-2016 (Thousands of Liters)**

	2011	2012	2013	2014	2015	2015 Jan-Sept	2016 Jan-Sept
AGUASCALIENTES	372,252	367,599	372,090	384,293	394,956	294,019	303,970
BAJA CALIFORNIA	181,190	159,231	158,096	168,817	169,557	125,583	124,522
BAJA CALIFORNIA SUR	41,144	40,566	39,417	39,560	30,583	23,741	26,127
CAMPECHE	36,364	38,424	38,168	38,772	42,782	31,168	31,633
COAHUILA	1,275,065	1,287,918	1,327,450	1,361,619	1,380,539	1,028,303	1,067,780
COLIMA	36,059	35,548	35,316	36,965	39,012	28,151	25,344
CHIAPAS	402,583	402,727	404,300	410,738	423,627	311,203	319,248
CHIHUAHUA	930,020	979,502	970,479	1,007,346	1,034,227	762,420	776,990
DISTRITO FEDERAL	13,784	12,678	14,187	13,400	12,930	9,666	10,509
DURANGO	997,155	1,037,913	1,015,624	1,036,137	1,142,047	854,380	856,697
GUANAJUATO	784,770	735,616	714,073	772,558	796,786	591,691	600,586
GUERRERO	83,764	88,809	89,696	83,894	88,103	64,603	65,089
HIDALGO	398,540	364,018	428,327	413,097	417,750	317,993	317,708
JALISCO	1,991,577	2,024,966	2,070,203	2,085,859	2,157,002	1,593,710	1,621,719

<sup>1</sup> Leche Industrializada Conasupo S. A. de C.V. (LICONSA) is a state-owned enterprise, whose goal is to distribute high-quality milk at a subsidized price to disadvantaged families.

MEXICO	482,082	469,315	467,889	460,167	455,283	340,070	332,523
MICHOACAN	339,389	344,810	336,726	335,085	328,360	245,377	250,930
MORELOS	20,890	22,421	22,206	20,115	20,092	14,841	15,269
NAYARIT	60,104	55,779	42,422	39,157	35,459	25,446	26,416
NUEVO LEON	37,790	38,622	36,505	33,459	27,743	21,491	18,217
OAXACA	147,933	147,102	145,511	148,964	146,197	105,939	108,096
PUEBLA	404,132	422,768	429,299	443,443	449,000	337,705	340,115
QUERETARO	195,147	336,644	343,015	360,908	364,177	268,047	289,058
QUINTANA ROO	5,562	6,128	4,643	4,672	4,809	3,371	3,601
SAN LUIS POTOSI	128,772	125,820	124,690	127,305	132,154	98,809	103,937
SINALOA	105,875	102,519	93,466	101,296	103,486	77,039	78,688
SONORA	112,055	110,764	110,028	108,112	108,639	87,120	89,064
TABASCO	101,522	106,960	101,259	99,599	99,598	84,651	85,622
TAMAULIPAS	29,666	28,242	27,579	21,753	20,267	15,335	13,877
TLAXCALA	109,978	109,952	101,476	103,241	98,027	71,618	65,791
VERACRUZ	723,106	715,190	700,715	693,950	695,762	522,723	525,355
YUCATAN	3,153	3,009	2,530	2,584	3,616	2,723	2,276
ZACATECAS	172,867	159,310	159,386	172,455	172,093	128,486	138,165
TOTAL	10,724,288	10,880,871	10,926,771	11,129,918	11,394,658	8,487,417	8,634,925

Source: SIAP-SAGARPA, as of September, 2016. (Includes milk from both cows and goats)



Source: SAGARPA-SIAP, October 2016. (Includes milk from both cows and goats)

### Consumption:

The Post 2017 total fluid milk consumption forecast (domestic and factory use) is 12.2 million MT, slightly up from the revised Post 2016 figure, based on both anticipated higher demand and higher production levels. In terms of fluid milk use, approximately one third is destined for pasteurization and ultra-high pasteurization, one third for milk powder (mainly whole milk powder) and cheese production, and the rest is distributed between yogurt, cream, butter, and butyric fat production. The advantage that many of these products offer to households is that they do not require refrigeration. Without a doubt, the refrigeration requirement is an important handicap for the direct consumption of fluid milk.

While the dairy processing industry continues to demand more fluid milk for specialized products, the direct consumption of fluid milk has not kept pace in recent years. Currently, consumers are more selective, and in search of “practical” products that provide nutrients and vitamins that are easily digested and prevent obesity. However, the Mexican milk industry noted that Mexicans still consume more soda than fluid milk. According to industry, the average fluid milk consumption per capita is 34 liters while soda accounts for 142 liters per year.

Despite LICONSA supporting fluid milk consumption among lower income groups by guaranteeing low prices at the point of sale with its own brand, this support does not compensate for the decreased consumption in general of other commercial fluid milk. The Post 2016 total fluid milk consumption estimate is kept unchanged given consumer’s consumption preferences for specialty products such as sweetened or flavored milk, ultra-high temperature pasteurized milk (UHT), and Greek yogurts or yogurts which include seeds and fruit.

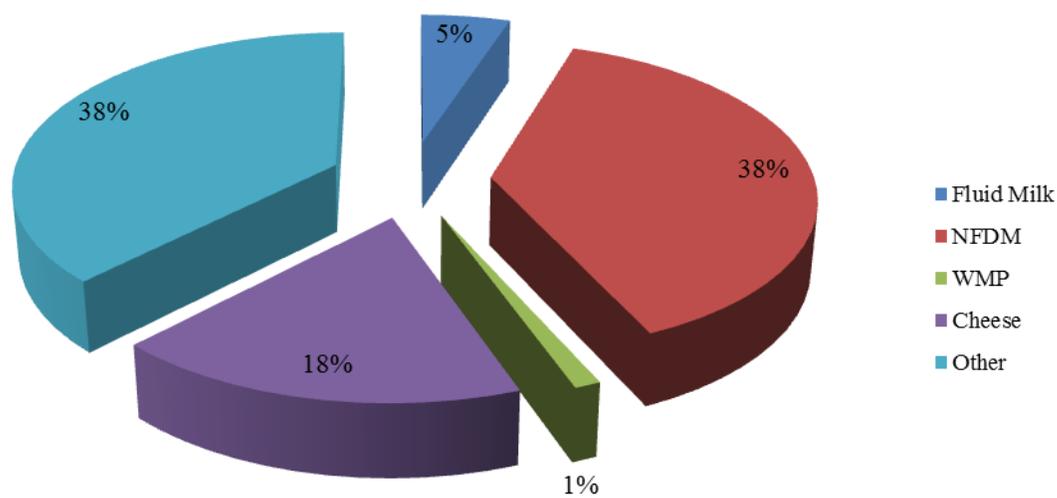
**Trade:**

The Post 2017 import forecast is 43,000 MT, marginally up from the revised 2016 estimate based on the forecasted slight increase in domestic production of fluid milk and stable demand from the processing industry. Most of the imports are intended to be used by large dairy processors that require certain types of fluid milk with the appropriate content of protein and fat for the preparation of drinkable yogurts, dairy spreads and cheeses. These processing companies generally use the imported milk in the preparation of cheeses and specialty yogurts such as drinkable yogurt and Greek yogurt. The Post 2016 import estimate was revised slightly up reflecting the latest official figures.

The Post 2017 fluid milk export forecast is expected marginally up from the 2016 figure as increased production results in additional product availability for export to mature markets in Central America and to the United States. Post’s 2016 estimate was revised slightly up due to increased production based on the latest official figures.

Additionally, Mexico has been importing dairy cattle in order to rebuild and improve the genetic quality of the domestic herd, particularly from the United States and Canada. During 2015, Mexico imported 16,241 head of dairy cattle (HS 01022901), 81 percent of which came from the U.S. and 19 percent from Canada. Through July 2016, imports are up 3 percent from the United States and down 33 percent from Canada in comparison with the same period in 2015.

**Figure 2. Mexico's 2015 Dairy Imports**



Source: SIAP-SAGARPA, Administración General de Aduanas (SAT), Cámara Nacional de Industriales de la Leche (CANILEC)

\*Other is comprised of butter, butteroil, casein, dairy blends, whey, etc.

### **Marketing:**

In 2015 and 2016, the Mexican economy saw a period of moderate growth. The Mexican peso has lost more than 25 percent of its value against the U.S. dollar, which had strong impact on Mexican consumers. Due to this situation, the Mexican government temporarily implemented stringent tax and inflation control measures for food and other basic products. However, the U.S. remains the dominant supplier of imported dairy products to the Mexican market.

Mexico's dairy industry continues to respond to the increased demand for specialized products, such as lactose-free, high-calcium, and reduced-fat fluid milk products. Mexican consumers prefer the reduced fat versions of cow's milk (65% lactose free and 31% reduced fat, according to industry). "Milk alternatives" is the most dynamic dairy category in 2016 with 14 percent growth in value. These alternatives include milk substitutes that are not dairy-based such as soymilk, rice milk, almond milk, and coconut milk. This category is expected to continue expanding, in part due to growing awareness of lactose intolerance and an increase in consumers looking for plant-based beverages with a positive and healthy image.

In the yogurt category, yogurt with fruit has been the fastest-growing category in 2016. Consumers appear to have a preference for flavored products, including several Greek-style yogurt brands with seeds and fruit.

### **Policy:**

The Trans Pacific Partnership Agreement (TPP) presents potential competition for the dairy sector is encouraging Mexican producers to quickly address infrastructure improvements and to lobby for legislative and public policy changes. For example, through PROGAN, the sector has requested financial support in order to remain competitive against dairy exporting TPP member countries that

produce at lower costs. Currently, the average domestic cost of production is \$6.45 pesos (USD \$ 0.33) per liter but given that the majority of inputs used in animal feed are imported this cost could increase. As previously reported, Mexico produces milk under four different production modes (See [MX5044](#)).

### Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6400	6400	6500	6500	0	6550
Cows Milk Production	11736	11736	11934	11934	0	11995
Other Milk Production	164	164	166	166	0	177
<b>Total Production</b>	11900	11900	12100	12100	0	12172
Other Imports	41	41	40	42	0	43
<b>Total Imports</b>	41	41	40	42	0	43
<b>Total Supply</b>	11941	11941	12140	12142	0	12215
Other Exports	11	11	10	12	0	13
<b>Total Exports</b>	11	11	10	12	0	13
Fluid Use Dom. Consum.	4185	4185	4183	4183	0	4180
Factory Use Consum.	7745	7745	7947	7947	0	8022
Feed Use Dom. Consum.	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	11930	11930	12130	12130	0	12202
<b>Total Distribution</b>	11941	11941	12140	12142	0	12215
(1000 HEAD) ,(1000 MT)						

## Dairy, Cheese

### Production:

Total commercial cheese production for 2017 is estimated 293,000 MT, reflecting stable fluid milk availability and increased demand for aged cheeses, fresh cheeses, and cheese products. The Post 2016 figure was kept unchanged due to constraints on the quality of fluid milk and the low international prices of dairy products in 2016 (reducing the incentive to produce for export).

### Consumption:

The new Post 2017 total cheese consumption forecast is 407,000 MT, as demand for aged cheeses is expected to remain stable among high-middle and high-income consumers who are looking for these types of cheeses as delicatessen products in specialty restaurants or at households. Similarly, low- and lower-middle-income consumers will maintain the demand for fresh cheese products despite a stagnant purchasing power given that these type of cheeses are extensively used in traditional food preparation such as quesadillas (corn tortilla with cheese) or to be used as topping in a wide variety of regional dishes. Private industry sources indicate that the EU and New Zealand are competing more aggressively with lower prices, however, the United States continues as Mexico's main supplier of cheese and raw materials for food preparation. The 2016 consumption estimate was revised down based on input from private sector sources that cite reduced purchasing power of consumers given lower than expected economic growth.

### Trade:

The 2017 cheese import forecast is 120,000 MT. Mexico will continue importing cheese as domestic cheese producers are constrained by limited supplies of quality milk, and competition from other processed dairy sectors. Post's 2016 estimate was revised down given stagnant consumer purchasing power that limited consumption, mainly in low-income consumers. However, the last quarter offers the opportunity to offset purchasing constraints due to the imminent holiday season.

The 2017 forecast for cheese exports is 6,000 MT, marginally up from the revised Post 2016 estimate. As in 2016, competition in international markets with European Union cheeses, that are pursuing other markets given the Russian embargo, is expected to continue. Mexican cheese manufacturers will continue supplying the United States and the mature niche markets in Central America which demand similar cheeses (ex: Fresco or Oaxaca style cheeses). Even though the U.S. market is still offering attractive profits to processors in part due to the exchange rate, the forecast for 2016 was kept unchanged, primarily due to constrained supplies of quality milk to be used in processing and low overall international dairy product prices. The import and export figures for 2016 were revised down to reflect latest official data.

**Marketing:**

According to Euromonitor, soft cheese remains more popular than hard cheese in México and accounts for 65% of retail sales volume. The most popular fresh varieties are Oaxaca, Panela and Fresco.

**Production, Supply and Demand Data Statistics:**

Dairy, Cheese Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks	0	0	0	0	0	0
Production	280	280	285	285	0	293
Other Imports	116	116	125	115	0	120
Total Imports	116	116	125	115	0	120
Total Supply	396	396	410	400	0	413
Other Exports	5	5	5	5	0	6
Total Exports	5	5	5	5	0	6
Human Dom. Consumption	391	391	405	395	0	407
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	396	396	405	395	0	407
Total Use	396	396	410	400	0	413
Ending Stocks	0	0	0	0	0	0
Total Distribution	396	396	410	400	0	413
(1000 MT)						

**Dairy, Butter**

**Production:**

The 2017 butter and butterfat production forecast is 199,000 MT, as the sustained demand from consumers for retail and bulk products (bakeries), and expected higher prices, are poised to entice processors to slightly increase production. During the first half of 2016, low international milk prices have encouraged dairy processors to focus on bulk production for the bakery and confectionary sector,

while continuing to satisfy retail demand (primarily from the middle and upper-classes). As such, the 2016 figure was kept unchanged.

### Consumption:

The butter and butterfat consumption estimate for 2017 is expected to be up compared to 2016 figures. This is mainly due to the efforts of the bakery and confectionary sectors to satisfy the requirements from the consumers that are in search of seasonal products, both traditional and novelty products. During the last quarter of the year, the baking industry usually targets the weeks prior to Halloween and “*Dia de los Muertos*” for the preparation of cupcakes and “*pan de muerto*”, while for Christmas, cakes are produced for various festivities. At the beginning of the year, the preparation of the “*rosca de reyes*” (traditional cake prepared for Epiphany, 12 days after Christmas) represents a large demand for dairy products.

However, the consumption of delicatessen bakery products is an ongoing practice for the medium-high income population who are in search new tasting experiences throughout the year.

During 2016 increased consumption was halted due to reduced consumer purchasing power, thus, it is revised downward.

### Trade:

The 2017 import forecast for butter (HTS 040510) and butterfat (HTS 040590) is set at 45,000 MT. This reflects a sustained demand from consumers mainly for bakery products as previously described. However, the Post 2016 import estimate was revised downward due to the above mentioned on purchasing power, and to reflect the latest official data from the Secretariat of Economy (SE).

Mexico is neither a traditional nor a strong exporter of dairy products; however, based on trade data, exports of butter and butterfat exports are beginning to emerge. The 2017 forecast is 10,000 MT, slightly up from the revised Post 2016 estimate. Post 2016 exports were revised downward to reflect latest official data, but remains on trend.

### Production, Supply and Demand Data Statistics:

Dairy, Butter Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	195	195	197	197	0	199
Other Imports	43	43	55	40	0	45
Total Imports	43	43	55	40	0	45
Total Supply	238	238	252	237	0	244
Other Exports	10	10	18	9	0	10
Total Exports	10	10	18	9	0	10
Domestic Consumption	228	228	234	228	0	234
Total Use	238	238	252	237	0	244
Ending Stocks	0	0	0	0	0	0
Total Distribution	238	238	252	237	0	244

(1000 MT)

### Dairy, Milk, Nonfat Dry (NFDM)

#### Production:

The 2017 production forecast for NFDM is flat at 55,000 MT. The sustained demand by other dairy subsectors limits NFDM production growth given the competition for high-quality fluid milk for the preparation of other value-added products, and lack of refrigeration capability of producers. NFDM is produced in substantial volumes only when the availability of high-quality fluid milk surpluses allows it. Post’s 2016 production estimates are unchanged.

**Consumption:**

As the demand from the processing industry, specifically for the preparation of specialty value-added products, is expected to continue growing, the NFDM 2017 consumption forecast is 330,000 MT. Changes in consumer consumption patterns for dairy products prepared with NFDM are increasing imports. Currently, younger generations have replaced fluid milk consumption for other types of milk, due to improved flavor and quality of such products. Many of these product use NFDM, such as reconstituted light and lactose-free milk, due to ease compared with using whole milk powder (WMP). In light of this increasing consumption trend among consumers, the Post consumption estimate for 2016 is kept unchanged.

**Trade:**

The import forecast of NFDM for 2017 is 275,000 MT. Historically; due to a limited NFDM production, Mexico has been a traditional importer, and value-added processors will continue increasing their imports of to complement their needs. 2016 figure is kept unchanged reflecting a stable increasing demand from consumers for specialty products which used NFDM.

Given limited production, 2017 forecast exports are expected to be similar to 2016, when no exported amount was recorded in official trade data.

**Production, Supply and Demand Data Statistics:**

Dairy, Milk, Nonfat Dry Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks	0	0	0	0	0	0
Production	55	55	55	55	0	55
Other Imports	259	259	265	265	0	275
Total Imports	259	259	265	265	0	275
Total Supply	314	314	320	320	0	330
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	314	314	320	320	0	330
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	314	314	320	320	0	330
Total Use	314	314	320	320	0	330
Ending Stocks	0	0	0	0	0	0
Total Distribution	314	314	320	320	0	330

(1000 MT)

**Dairy, Dry Whole Milk Powder (WMP)**

**Production:**

For 2017 the dry WMP production estimate is set at 157,000 MT, slightly up from the revised 2016 figure. As with NFDM, the WMP sector will continue to compete with other dairy sectors to produce value-added products. However, the imminent launching of two new milk dehydration plants located in key producing areas, will contribute to increased production in the medium-term. WMP production was impacted by the same factors as other dairy products in 2016, low international milk prices and constrained quality domestic fluid milk production. At least for the last two decades, WMP production in Mexico has not been sufficient to meet demand. Importantly, WMP is the principal dry milk product produced, and when there is surplus, the milk is then channeled into NFDM production. It is expected that demand for WMP will remain relatively stable for the last quarter of 2016. Therefore, the 2016 estimate was kept unchanged.

**Consumption:**

For 2017, the dry WMP consumption forecast is 157,000 MT, as demand for WMP from the processing industry for the preparation of value-added products is not expected to change. The estimate for 2016 was kept unchanged at 154,000 MT reflecting the latest official data.

**Trade:**

The 2017 import forecast is marginally up from the revised 2016 figures at 12,000 MT. The demand for WMP for reconstitution into fluid milk, value-added dairy products, such as sweetened milk and yogurts, is expected to continue. A large percentage of imports are destined for milk processors, but varying amounts often are destined for lower income populations through LICONSA, with subsidized high-quality dry and reconstituted milk. As domestic production of high quality fluid milk is constrained, imports have become a common mechanism to fill in the gap between production and demand. Although in recent years LINCONSA had intensified purchases of domestic fluid milk in order to support domestic producers (rather than importing dry WMP), during 2016, a limited budget reduced the amount of fluid milk purchased domestically, LICONSA increased imports of WMP. Post’s 2016 import estimate is kept unchanged given these factors.

Due to the sustained imports mainly by WMP processors, Post’s 2017 export estimate of WMP is set at 13,000 MT. Recently released official data from Mexico’s Secretariat of Economy indicates a stable trend, so, 2016 revised figures are unchanged.

**Policy:**

Mexico’s sanitary and commercial authorities are discussing the development of several Official Norms to establish provisions and requirements for milk powder (PROY-NOM-144-SSA1-1995), cheese, and food preparations, with which domestic or imported products must comply. Among the most important topics in the proposals is the need to establish sanitary and physical-chemical specifications. Even though the timeframe for their drafts were set to be published by the end of 2015, publication is still currently pending. Currently, NOM-243-SSA1-2010 which establishes the general provisions, sanitary specifications and test method for milk, formulas and byproducts is the only regulation being enforced.

**Production, Supply and Demand Data Statistics:**

Dairy, Dry Whole Milk Powder	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Market Begin Year						
Mexico						
Beginning Stocks	0	0	0	0	0	0
Production	155	155	156	156	0	157

<b>Other Imports</b>	7	7	10	10	0	12
<b>Total Imports</b>	7	7	10	10	0	12
<b>Total Supply</b>	162	162	166	166	0	169
<b>Other Exports</b>	11	11	12	12	0	13
<b>Total Exports</b>	11	11	12	12	0	13
<b>Human Dom. Consumption</b>	151	151	154	154	0	156
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	151	151	154	154	0	156
<b>Total Use</b>	162	162	166	166	0	169
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	162	162	166	166	0	169
(1000 MT)						

## Infant Formula

Recently, the inauguration of a processing plant in the State of Jalisco by Nestlé to produce infant formula for domestic consumption and for exports represents a huge challenge for Mexican dairy production, as it requires high quality fluid milk and WMP. Benefits from this processing plant will only be realized if Mexican producers can provide high quality fluid milk. Gaps in the demand for WMP are expected to be filled by imports.

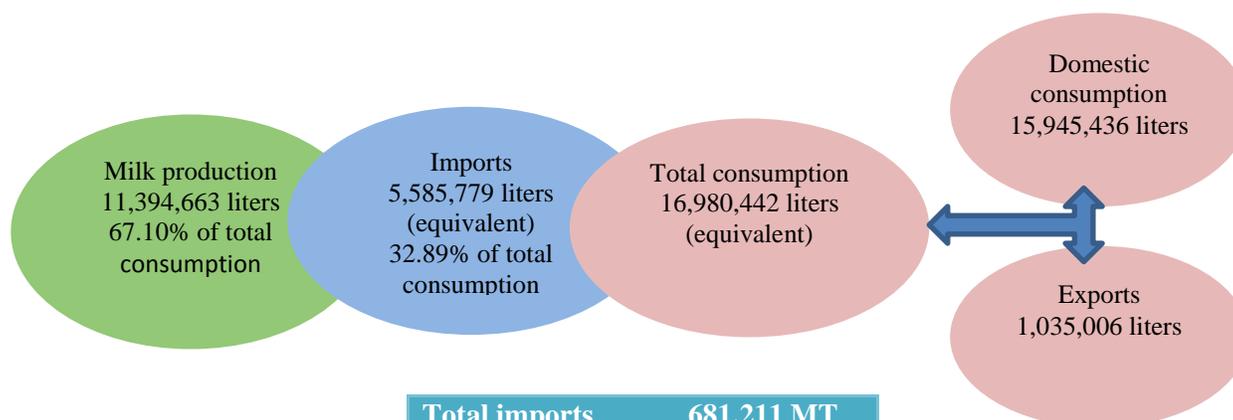
According to industry, other infant formula processors are active in Mexico, and provide product both domestically and export across Latin America. Currently, the mid-high income Mexican households favor specialty products for the different growing stages of children (i.e.: newborns, toddlers, etc.), that are specially formulated in order to provide improved nutrition. In large chain stores and pharmacies across Mexico (such as Walmart), consumers can choose from a wide variety of formula products.

## General Tariffs

Currently, under NAFTA, all U.S. dairy products enter Mexico duty-free.

### Image 1. Mexico: Industry Breakdown on Milk Supply and Distribution

The following chart shows production, trade, and demand trends as portrayed by the National Chamber of Milk Industrials (CANILEC). NOTE: This data does not represent Post nor USDA data but offers a representative illustration of the dairy marketing channels.



Total imports	681,211 MT
Milk Powder	268,211
Food preparations	26,598
Cheeses	122,042
Whey	60,726
Butteroil	35,461
Fluid milk	35,823*
Other	134,148

Source: SIAP-SAGARPA, Administracion General de Aduanas (SAT)/Cámara Nacional de Industriales de la Leche (CANILEC)

\*Conversion factor for fluid milk: 1 liter weighs 1.03 kilograms