

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Mexico

Dairy and Products Semi-annual

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Report Highlights:

Even though the Mexican economy is on the road to recovery, any growth in fluid milk production, butter and non-fat dry milk has stalled. Imports of non-fat dry milk and butter will continue to grow for 2010 supported by favorable international prices. Consumption of dairy products has begun to recover thus; estimates have been slightly revised up. Even with reducing imports, LICONSA is the leading importer and main holder of milk powder stocks.

Executive Summary:

After several years of impressive production growth, the Mexican dairy industry is leveling off. This stall is due to several factors; higher feed costs, infrastructure constraints, economic recession, lower consumer's purchasing power, higher taxes and higher petroleum prices. Imports of non-fat dry milk (NFDM) have been revised up 5.3 percent. Factors supporting this increase are a tight availability of domestic milk, the elimination of the NAFTA TRQ on NFDM, and favorable international prices. Mexican fluid milk export forecasts for 2010 and 2009 were revised by an impressive 25 and 50 percent respectively. Guatemala is an export market for Mexican fluid milk and accounts for the increase of fluid milk exports.

Mexico continues to be a major market for U.S. exports of NFDM, butter, cheese, and fluid milk. Despite a significant decline in 2008 resulting from the international economic crisis, the United States remains the principal supplier of dairy blends, lactose, and whey powder. In fact, U.S. whey powder (HS code 0404.10.01) exports to Mexico totaled 34,088 MT in 2009 and represented 99.4 percent of the total Mexican whey imports. However, this amount is 26 percent lower when compared to 2007 levels.

This year the Mexican government, dairy producers and industrial sector are investing to increase production and to promote dairy consumption.

Commodities:

Dairy, Milk, Fluid

Production:

NOTE: The policy and marketing sections for all dairy products are located at the end of this report.

Data included in this report is not official USDA data. Official USDA data is available at:

<http://www.fas.usda.gov/psd>

Production Fluid Milk

Fluid milk production forecast for 2010 (Jan.-Dec.) was adjusted down from the previous estimate, to 11.01 MMT, reflecting official data. This reduction is due to the economic recession, higher feed costs and the drought. For 2009, production was adjusted 3 percent lower to reflect official data. For 2008, production remains unchanged.

The fluid milk market within Mexico should become more competitive due to a favorable international milk price and the availability of fluid milk substitutes, such as NFDM. Furthermore, consolidation, integration and the economic crisis are factors forcing more productivity within the Mexican dairy sector.

Cows in Milk Production

For 2010, the estimate for cows in milk production was revised up 1.1 percent to 6.6 million heads according to industry contacts. Furthermore, a Mexican government program focusing on repopulating breeding cattle should support the efforts of dairy producers (see policy section).

LICONSA

LICONSA, a state company with responsibility to distribute milk to low income Mexicans, continues decreasing its dependence on NFDM imports, and is making an effort to source more fluid milk domestically. In 2009, LICONSA purchased 635 million liters of domestically produced fluid milk, a 4.27 percent increase compared to 2008.

For 2010, LICONSA's consumer price will remain at 4 pesos per liter thus; the producer purchase price will not change from the 2009 level. During 2009, LICONSA paid to producers an average price of 4.48 pesos per liter (US\$ 0.364 [1]). This higher price paid to producers resulted from political pressure to maintain a higher LICONSA price paid to fluid milk producers. In 2008, the LICONSA price was 4.32 pesos per liter (US\$ 0.351) which was 7.2 percent higher than 2007 (4.03 pesos per liter). The LICONSA price serves as a national reference price for fluid milk.

State	2007 ¹	2008 ¹	2009 ²	January to March		% Change	
				2009 ²	2010 ²	Jan-Dec 09/08	Jan-March 10/09
AGUASCALIENTES	375,401	370,399	367,171	85,819	90,198	-0.9%	5.1%
BAJA CALIFORNIA	207,915	193,422	176,766	46,379	42,002	-8.6%	-9.4%
BAJA CALIFORNIA SUR	43,150	46,451	46,554	11,796	10,759	0.2%	-8.8%
CAMPECHE	35,517	35,029	35,335	7,860	8,515	0.9%	8.3%
COAHUILA	1,286,281	1,363,762	1,282,880	332,765	301,235	-5.9%	-9.5%
COLIMA	36,146	36,525	32,919	4,986	5,363	-9.9%	7.6%
CHIAPAS	353,085	372,249	371,147	90,734	83,716	-0.3%	-7.7%
CHIHUAHUA	817,919	926,222	919,772	212,831	225,105	-0.7%	5.8%
DISTRITO FEDERAL	10,058	12,322	13,652	3,531	3,424	10.8%	-3.0%
DURANGO	1,019,227	1,036,581	959,681	227,160	246,775	-7.4%	8.6%

GUANAJUATO	674,660	684,202	761,759	181,369	181,607	11.3%	0.1%
GUERRERO	82,001	81,552	84,404	17,750	17,582	3.5%	-0.9%
HIDALGO	460,773	452,977	441,595	106,345	105,990	-2.5%	-0.3%
JALISCO	1,793,579	1,855,362	1,919,567	446,867	441,978	3.5%	-1.1%
MEXICO	478,211	464,573	465,843	90,370	87,113	0.3%	-3.6%
MICHOACAN	328,185	329,079	332,924	72,428	71,650	1.2%	-1.1%
MORELOS	21,105	18,809	21,465	5,026	5,336	14.1%	6.2%
NAYARIT	64,536	61,974	60,170	11,952	12,856	-2.9%	7.6%
NUEVO LEON	41,432	39,909	42,234	10,914	9,582	5.8%	-12.2%
OAXACA	142,795	145,213	146,406	30,535	30,419	0.8%	-0.4%
PUEBLA	384,707	384,285	392,703	96,117	106,076	2.2%	10.4%
QUERETARO	200,835	195,791	192,435	46,584	45,702	-1.7%	-1.9%
QUINTANA ROO	5,642	5,623	6,075	1,485	1,280	8.0%	-13.8%
SAN LUIS POTOSI	140,630	141,828	131,700	31,000	30,782	-7.1%	-0.7%
SINALOA	88,633	93,779	96,139	23,331	24,516	2.5%	5.1%
SONORA	137,780	134,921	126,496	35,992	37,583	-6.2%	4.4%
TABASCO	110,603	110,694	111,533	21,821	20,962	0.8%	-3.9%
TAMAULIPAS	29,224	30,209	32,399	7,029	6,161	7.2%	-12.3%
TLAXCALA	110,258	110,924	120,356	31,656	27,718	8.5%	-12.4%
VERACRUZ	692,754	697,288	730,163	163,262	157,235	4.7%	-3.7%
YUCATAN	5,557	5,608	4,366	1,021	909	-22.1%	-11.0%
ZACATECAS	167,383	163,293	165,697	42,225	43,119	1.5%	2.1%
NACIONAL	10,345,982	10,498,994	10,592,304	2,498,940	2,483,249	0.9%	-0.6%
Lagunera Area	2,205,498	2,255,272	2,090,707	529,720	517,915	-7.3%	-2.2%

Source: Servicio de Informacion Agroalimentaria y Pesquera (SIAP), SAGARPA

- SAGARPA's definitive figures
- SAGARPA's preliminary figures

^[1] Exchange rate: 12.3 pesos per 1 dollar

Consumption:

For 2010, fluid milk consumption was revised down from the previous estimate to 11.22 MMT. The small increase within the dairy processing sector was covered by inexpensive NFDM instead of fluid milk thus; fluid milk consumption will depend on the recovery of consumers' purchasing power. For 2009, the total consumption estimate was revised lower due to the impact of the economic recession on the purchasing power of middle- and low-income consumers. For 2008, consumption figures reflect official data.

As of May 3, 2010, consumer prices in Mexico averaged 11.54 pesos per liter (U.S. \$0.94) for pasteurized milk and 12.24 pesos per liter (U.S. \$0.995) for UHT milk, 1.6 percent and 2.8 percent higher than 2009, respectively, and 10.5 percent and 12 percent respectively higher than 2008.

For 2010, it is expected that LICONSA will continue purchasing more milk from domestic producers. In 2009, LICONSA distributed 1.024 billion liters of milk to low-income families within Mexico. Of this distributed amount, 62 percent was domestic purchased fluid milk and 38 percent was reconstituted imported milk powder. As a result, LICONSA is using more domestic produced fluid milk. When comparing 2007 to 2009 imported dried milk, LICONSA has reduced its use of imported dried milk by 35 percent (90,259 vs. 58,700 MT).

Trade:

For 2010, the fluid milk import forecast was unchanged. For 2009, import figures were revised up 28.6 percent from the previous estimate to 45 TMT. This reflects a lower than expected impact of the international economic crisis on fluid milk imports. As in previous years, most fluid milk imports are intended for the northern border cities of Mexico. Opportunities for sales beyond the northern border cities are limited by additional transportation costs and cold chain infrastructure constraints. For 2008, import estimate reflects official data.

According to Mexican dairy industry contacts, the supply of milk in Mexico is about 71 percent domestic fluid milk and 29 percent from reconstructive imported powder milk.

Table 2. Mexico: Percentage of domestic fluid milk versus reconstructive imported powder milk

Year	Domestic	Imported
2005	66%	34%
2006	73%	27%
2007	68%	32%
2008	71%	29%

Source: CANILEC

For 2010, the export estimate for fluid milk was revised up from the previous estimate due to the entrance of new Mexican exporters, primarily small firms. For 2009, the export figure was revised up 25 percent reflecting official data due to strong exports to Guatemala and Belize. For 2008, the export estimate was unchanged.

Production, Supply and Demand Data Statistics:

PSD Table Fluid Milk			
Country:	Mexico		
Commodity:	Dairy, Fluid Milk	(1000 head)	(1000 MT)

	2008 Revised			2009 Estimated			2010 Forecast		
	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data
Market year begin	01/2008			01/2009			01/2010		
Cows In Milk	6,204	6,204	6,204	6,400	6,400	6,400	6,527	6,527	6,600
Cows Milk Production	10,909	10,909	10,907	11,132	11,132	10,910	11,355	11,355	11,010
Other Milk Production	170	170	170	173	173	171	175	175	166
Total Production	11,079	11,079	11,077	11,305	11,305	11,081	11,530	11,530	11,176
Other Imports	63	63	63	35	35	45	50	50	50
Total Imports	63	63	63	35	35	45	50	50	50
Total Supply	11,142	11,142	11,140	11,340	11,340	11,126	11,580	11,580	11,226
Other Exports	5	5	5	4	4	5	4	4	6
Total Exports	5	5	5	4	4	5	4	4	6
Fluid Use Dom. Consum.	4,265	4,265	4,263	4,421	4,421	4,290	4,630	4,630	4,360
Factory Use Consum.	6,872	6,872	6,872	6,915	6,915	6,831	6,946	6,946	6,860
Feed Use Dom. Consum.	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	11,137	11,137	11,135	11,336	11,336	11,121	11,576	11,576	11,220
Total Distribution	11,142	11,142	11,140	11,340	11,340	11,126	11,580	11,580	11,226

Commodities:

Dairy, Cheese

Production:

For 2010, the cheese production forecast was revised up 3.9 percent matching last year's production level. For 2009, the production estimate was adjusted 6.7 percent higher according to official preliminary figures. During 2009, the production of inexpensive yellow cheese increased to match the higher demand for lower priced dairy products. In addition, due to an oversupply of fluid milk as the result of the economic recession, the production of Manchego and Chihuahua increased. The production level of fresh Panela and Oaxaca cheese remained unchanged. For 2008, production remains unchanged at 188,000 MT and reflects official data. According to industry sources, cheese manufacturers who purchase milk from independent milk producers are paying between \$3.80 to \$4.20 pesos per liter.

Consumption:

For 2010, the cheese consumption estimate was adjusted 3 percent higher than previously reported. The new estimate represents only a 0.6 percent increase compared to the revised 2009 consumption level. Moreover, the economic recovery should allow the consumption of higher quality cheese instead of the inexpensive cheese for low-income families.

Trade:

For 2010, trade statistics for cheese remain unchanged from October's reported. For 2009, the cheese import estimate was revised up 1.4 percent to reflect official data. For 2008, trade statistics reflect official data.

Production, Supply and Demand Data Statistics:

PSD Table Cheese									
Country:	Mexico								
Commodity:	Dairy, Cheese (1000 MT)								
	2008 Revised			2009 Estimated			2010 Forecast		
	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data
Market year begin	01/2008			01/2009			01/2010		
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	188	188	188	225	225	240	231	231	240
Other Imports	68	68	68	72	72	73	75	75	75
Total Imports	68	68	68	72	72	73	75	75	75
Total Supply	256	256	256	297	297	313	306	306	315
Other Exports	5	5	5	4	4	4	4	4	4
Total Exports	5	5	5	4	4	4	4	4	4
Human Dom. Consumption	251	251	251	293	293	309	302	302	311
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	251	251	251	293	293	309	302	302	311
Total Use	256	256	256	297	297	313	306	306	315
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	256	256	256	297	297	313	306	306	315

Commodities:

Dairy, Butter

Production:

Statistics for butter and butterfat production are combined. For 2010, butter (and butterfat) production is forecast to remain unchanged, although 4.3 percent higher than the previous year's revised estimate. For 2009, the butter production estimate declined demonstrating the difficulties of increasing domestic production and the uncertain demand because of the economic recession and low international price. For 2008, production was unchanged and reflects official data.

Consumption:

For 2010, butter consumption was revised up 7 percent due to the rebound in demand from the baking and confectionary industry. For 2009, butter consumption was revised up due to the availability of inexpensive butter imports. For 2008, consumption remains unchanged.

Consistent with past years, no stocks are estimated due to the lack of refrigerated storage space among producers and end users. Users such as bakeries and food processors do not keep large stocks of butter.

Trade:

For 2010, the import estimate has been revised up from the previous estimate due to the stagnant domestic production while consumption rebounds after the economic recession especially within the baking and confectionary industry. The import estimate for 2009 was revised up due to the increase in domestic demand of inexpensive imported butter. Despite the fact U.S butterfat exports to Mexico increase in 2009, the presence of New Zealand's products within the Mexican market has increased substantially. For example, comparing 2008 to 2009 butter exports (HS code 040590) from the United States achieved a 35 percent increase compared to New Zealand which achieved a 68 percent increase. For 2008, import estimate reflects official data.

Production, Supply and Demand Data Statistics:

PSD Table Butter									
Country:	Mexico								
Commodity:	Dairy, butter (1000 MT)								
	2008 Revised			2009 Estimated			2010 Forecast		
	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data	USDA Official Data	Post Data	New Post data
Market year begin	01/2008			01/2009			01/2010		
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	180	180	180	165	165	163	170	170	170
Other Imports	49	49	49	58	58	74	60	60	76
Total Imports	49	49	49	58	58	74	60	60	76
Total Supply	229	229	229	223	223	237	230	230	246
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0	0	0
Domestic Consumption	229	229	229	223	223	237	230	230	246
Total Use	229	229	229	223	223	237	230	230	246
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	229	229	229	223	223	237	230	230	246

	Data		data	Data		data	Data		data
Market year begin	01/2008			01/2009			01/2010		
Beginning Stocks	20	20	20	20	20	20	20	20	20
Production	239	239	239	245	245	245	250	250	250
Other Imports	173	173	176	180	180	192	190	190	200
Total Imports	173	173	176	180	180	192	190	190	200
Total Supply	432	432	435	445	445	457	460	460	470
Other Exports	7	7	7	7	7	6	7	7	7
Total Exports	7	7	7	7	7	6	7	7	7
Human Dom. Consumption	405	405	408	418	418	431	433	433	443
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	405	405	408	418	418	431	433	433	443
Total Use	412	412	415	425	425	437	440	440	450
Ending Stocks	20	20	20	20	20	20	20	20	20
Total Distribution	432	432	435	445	445	457	460	460	470

Author Defined:

POLICY

The Mexican Agriculture Secretary, Francisco Mayorga recently stated (April 3, 2010) Mexico lacks an adequate legal framework related to the trade of food and must develop a framework similar to developed countries such as the United States. Thus, the Mexican government along with Congress has embarked on the tasks of improving the Mexican regulations (Normas) which regulate the production and imports of food and raw materials.

In addition, the Economy Secretariat (SE) published for comments a proposed draft of a new regulation (NOM) for yogurts in the Diario Oficial (Federal Register) on March 17, 2010. Comments must be submitted to SE before May 17, 2010. The new regulations are expected to be finalized and published late 2010 or early 2011. The current proposal seeks to establish physical and chemical specifications, commercial information requirements, and the test methods which must be used to verify these specifications. The NOM will apply to all yogurt sold in Mexico. According to industry sources, this NOM will not affect the use of imported dairy ingredients in the making of yogurt, however minimum requirements of milk-protein and butyric fat will be established. In addition, processors will need to state the inclusion of these ingredients on the label as well as nutritional content.

To encourage all Mexican agriculture producers to improve efficiency and productivity, the Mexican government has established several improvement programs [2]. One such program, entitled "Acquisition of Performing Assets" will focus on infrastructure, improving animal quality and integration was authorized \$12.5 billion pesos (*UD\$1.01 billion*).

Specifically, for the dairy sector, a focus on improving animals to advance the competitiveness of the sector Congress authorized \$300 million pesos (US\$24.4 million dollars). This support will be allocated to producers in the following manner:

Table 3. Mexico: Support level by type of animal	
Type of Animal Program	Pesos (US\$) Per Animal/Dose
Registered domestic pregnant dairy bovine or dual-purpose pregnancies	\$18,000 pesos (<i>US\$1,463</i>)
Domestic pregnant dairy bovine non-registered, but graded	\$16,000 pesos (<i>US\$1,301</i>)
Domestic meat bovine or pregnant dual-purpose	\$9,000 pesos (<i>US\$732</i>)
Dose of semen (domestic or imported)	\$200 pesos (<i>US\$16.3</i>)
Dose of semen (domestic or imported)	\$400 pesos (<i>US\$32.5</i>)
Source: Official Gazette of the Mexican Congress	

^[2] 2010 Mexican Expenditure Budget: December 7, 2009.

MARKETING

Mexico continues to recover from the economic recession. All signs point to the fact that dairy consumption should return to historically consumption level by the end of 2010. Tremendous growth has occurred over the past nine years within the dairy processing sector and should return. The growth within the dairy processing sector can be contributed to three key factors; family income, new products, and the development of export markets. Despite the fact that family income is not at desirable levels it has increased at a rate greater than inflation. As family incomes have grown so has the demand

To promote the consumption of dairy products as incomes recover from the economic recession, the National Chamber of Milk Manufactures (CANILEC) began a promotion campaign entitled “Take good advice, drink milk and its products.” Via a web site <http://www.tomaunbuenconsejo.com.mx/>, CANILEC is promoting the healthy benefits of consuming and eating dairy products.

The U.S. Agricultural Offices in Mexico City and Monterrey provide information on all aspects of U.S. dairy product trade and use, including market intelligence on trade policy issues. They organize informational

seminars for the Mexican trade, and develop promotion and sales opportunities for U.S. dairy products in the Mexican

The Agricultural Trade Offices (ATO) in Mexico will participate in the following trade shows to promote U.S exports: Alimentaria (June 1-3, 2010), Expohotel 2010 (June 16-18, 2010) and ABASTUR 2010 (August 3-5, 2010).

Furthermore, the cooperator group representing the U.S. dairy industry in Mexico is the U.S. Dairy Export Council (USDEC). USDEC organizes buying missions for potential Mexican importers and distributors to visit dairy processing plants within the United States. In addition, USDEC provides export services for new exporters to Mexico.

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We are available at www.mexico-usda.com or visit FAS headquarters' home page at <http://www.fas.usda.gov> for a complete selection of FAS worldwide agricultural reporting.

Useful Mexican Web Sites: Mexico's equivalent of the Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx and Mexico's equivalent of the Department of Commerce (SE) can be found at www.se.gob.mx NOTE: These web sites are mentioned for the readers' convenience, but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.

Other Relevant Reports

MX 0016 Mexico Announces the TRQ for Import Dairy Preparations for 2010

MX9092 Auction of Permits to Import Dairy Preparations for December 18

MX9072 Dairy and Products Annual

MX0010 Poultry and Products Semi-annual

MX0012 Livestock and Products Semi-annual