

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Mexico**

### **Dairy and Products Semi-annual**

#### **Mexico Seeks to Improve Dairy Quality**

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**Report Highlights:**

Domestic dairy farmers supported by the Government of Mexico, along with the commitments of an expanding dairy industry, are fueling growth and striving to improve dairy quality. This is, however, a medium-to-long term process, and the increasing demand for processed dairy products continues to support the imports of products such as powdered milk as inputs. As with other parts of the agricultural sector, Mexico is looking to diversify trade.

**Commodities:**

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

**Dairy, Milk, Fluid****Production:**

For the purposes of this report, fluid milk comprises milk produced by primarily cows and goats.

**Fluid milk production increasing, but Mexico is not yet self-sufficient**

The 2017 estimate for the commercial production of fluid milk is 12.3 million metric tons (MT), showing continued growth. This is due to enhanced genetic quality of dairy herds following genetic improvement efforts (which continue), an improved reproductive ratio, and better milking practices. Increased milk production may allow the domestic sector to better cover the demands from the processing sector. Domestic fluid milk production, however, is still not sufficient to meet demand, and the processing sector continues to rely on imports to fill the gap. The 2016 estimate was revised upwards to reflect official data.

**Efforts to improve milk quality are expanding**

Currently, Mexico's domestic production has a deficit of high quality fluid milk.<sup>1</sup> In order to obtain high quality milk, Mexican producers are seeking to improve herd genetics to bolster the feed to milk conversion ratio, along with improving herd management and implementing strict sanitary programs at the farm-level. A key factor is often a lack of infrastructure to lower the temperature of fluid milk in the post-milking phase. Therefore, one of the main goals of the Government of Mexico (GOM) and industry is to integrate small and medium-size milk producers into the supply chain through improved milk production management. Additionally, the sector is looking to expand their cold chain capabilities.

LICONSA<sup>2</sup> is ramping up purchases of fluid milk, and in the spring of 2017, a new public-private partnership was formed between LICONSA and FEMELECHE.<sup>3</sup> In parallel, Mexico's government

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<sup>1</sup> High quality milk means that milk is collected with good milking practices from clean cows, as well as being free of bacteria and contamination from antibiotics and other drugs. Other things considered when determining if milk is high quality are the somatic cell count, acidification, the fat-protein ratio, and the content of water. Post-milking handling (i.e. refrigeration) is key in producing high quality milk.

<sup>2</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.

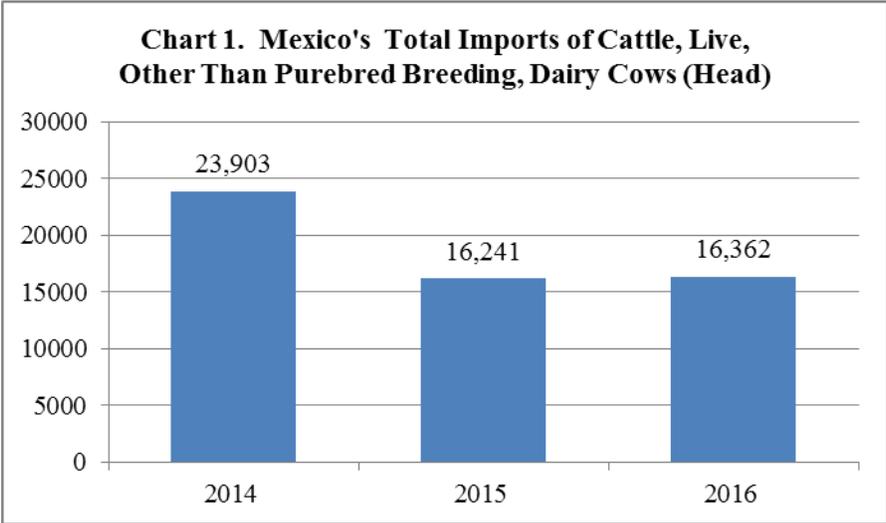
<sup>3</sup> FEMELECHE, or the Mexican Dairy Federation, is a private sector organization of dairy producers and processors in Mexico.

livestock strengthening program (PROGAN) will continue to seek to increase farm-level productivity across the livestock sectors, including dairy. (See the Policy section for details on both programs.)

In the medium to long term, these public and private efforts are expected to improve production. However, a strong U. S. dollar will play a role in the cost of production. Feed costs can represent upwards of 60 percent of the cost of production, and therefore, play an important role in production costs.

**Imports of dairy cows**

A key factor in improving fluid milk production is the role of imported dairy cows. Historically, the importation of U.S. and Canadian dairy cows with improved genetic quality for breeding purposes has been a common practice. Commercial entities in major producing states such as Jalisco have significant dairy breeding programs. Ciudad Juarez, Nuevo Laredo, Nogales, and Ojinaga, are the main ports of entrance for dairy cattle from the United States and Canada. However, it varies from year to year, and during 2016, all imported dairy cows crossed the border through Nuevo Laredo and Ciudad Juarez ports.



Source: INEGI (HS Code: 01022901)

**Consumption:**

**Room to increase per capita consumption**

For 2017, domestic fluid milk consumption is estimated slightly up at 4.2 million MT. Mexico’s main challenge is to increase the per capita consumption of fluid milk and milk products which is behind global averages. Currently, the Food and Agriculture Organization (FAO) establishes the recommendable consumption at more than 150 kilograms. Private sources state that while Mexico’s average consumption of milk and milk products is 130 liters (131 kilograms) per person per year; the same sources indicated that the fluid milk per capita consumption is 34 liters (35 kilograms) per year.

Individual milk processors and dairy farmers advertise their products on the market independently; however, industry organizations such as the National Chamber of the Dairy Industry (CANILEC) may produce advertisements in support of World Milk Day on June 1, and to promote general consumption.

### **Primary fluid milk consumer**

Meanwhile, demand for specialty-processed milk products such as ultra-high temperature processing (UHT), sweetened milk, and additive-added (for example, proteins, probiotics, and micro-minerals such as manganese and fluoride) milk is on the upswing. The shelf-stable milks that do not require refrigeration are particularly popular with both consumers and retailers as it lowers costs and appliance requirements.

Much of the fluid milk, when of high quality, is being consumed by the added-value dairy products sector (cheese, yogurt, etc.). The forecast for factory use consumption of fluid milk 2017 is 8.1 million MT, or two-thirds of total consumption. Private sources estimate that processing production of added-value dairy products is growing at 2 to 3 percent annually. As such, 2016 figures were revised up.

### **Milk alternatives continue growing in popularity**

The most popular alternatives to fluid milk are soy-based beverages. Other alternatives include almond, rice, and coconut (the most dynamic category recently with 14 percent growth in 2016). These drinks, however, remain a niche category for middle to upper income consumers given higher prices and most are imported. The market continues to grow, in part due to consumer awareness, growing lactose intolerance in the population, and preferences for plant-based products.

### **Trade:**

#### **Practically a single-source importer of fluid milk**

The import estimate for 2017 is 50,000 MT, up from the previous year. In 2016, upwards of 99 percent of fluid milk imports came from the United States, while less than 1 percent came from Uruguay and France, with negligible amounts from Nicaragua and New Zealand. The 2016 figures were updated to reflect official data.

### **Mexico looks to expand exports**

Exports of fluid milk are forecast at 14,000 MT in 2017, or 17 percent growth from 2016. Increased production and imports may allow Mexico to maintain its exporting capacity and grow. Over the years, Mexico and the United States have maintained a dynamic flow of dairy products across their borders. During 2016, according to official figures, Mexico exported to the United States 6,390 MT of fluid milk, representing 53 percent of their export market. The top five export destinations for milk from Mexico are the United States, Guatemala, Belize, Cuba, and Venezuela. Mexico is highly interested in further

opening the U.S. market, as well as diversifying export destinations. The 2016 figures were updated to reflect official data.

## **Policy:**

### **LICONSA to increase domestic fluid milk purchases**

During 2017, LICONSA, to comply with government established policy and as a factor that may contribute to increased production, is planning to increase the amount of fluid milk, purchased by small producers nationwide. During 2016, the Secretariat of Economy (SE) established a goal to support small and medium producers through the purchase of domestic milk.<sup>4</sup> Currently, LICONSA is purchasing approximately 800 million liters (or 824,000 MT) of fluid milk as well as importing large amounts of powdered milk. This milk covers an estimated population of 6.4 million consumers under its subsidized milk supply program. Of these consumers, 3.4 million are children between 6 months to 12 years old, including through the government “*desayunos escolares*” program for children attending school. This program is nationwide.

### **A new public-private joint venture**

During the National Dairy Forum, held on March 15, 2017, FEMELECHE and LICONSA authorities signed an agreement to promote the well-being of domestic producers, and thereby the dairy sector. The agreement seeks to strengthen quality control regulations, improve the supply chain, gain access to international markets for small and medium size producers, and most importantly, increase the per capita consumption of dairy products across Mexico.

### **PROGAN continues to benefit dairy farmers**

As in previous years, the government livestock strengthening program (PROGAN) will provide monetary support for small and medium dairy farmers.<sup>5</sup> There are various components of the program under which a dairy farmer might obtain support. For example, under the “Productivity” component of PROGAN, small dairy farmers with up to 35 head are eligible to receive MX\$300 per head, with a maximum of MX\$10,500 overall. Alternatively, under the “Supply Chain” component of PROGAN, dairy farmers can receive incentives to support raising, breeding and genetic material, handling, and feeding of MX\$1,200 per head with a maximum of 60 heads.

### **Mexico faces the Trans Pacific Partnership (TPP) optimistically**

Mexico has initiated bilateral negotiations at least with five of the 10 member countries in the TPP. Specifically, Mexico is looking for the strengthening of the relationship with Japan and New Zealand, which is particularly important to the dairy sector. Apart from the TPP in Asia, Mexico is also looking to improve the relationship with China.

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<sup>4</sup> The text of the goal can be found here: <http://www.gob.mx/liconsa/prensa/liconsa-apoya-a-mipymes-93007>

<sup>5</sup> Specific details of the PROGAN program can be found here: <https://www.gob.mx/sagarpa/acciones-y-programas/programa-de-fomento-ganadero-2017>

## Geographical indicators profile raised

Intellectual property and geographical indicators (GI's) are becoming a concern for Mexico in gaining access to foreign markets such as the European Union, and particularly for the cheese processing sector. Currently, Mexico is seeking to overcome a lack of domestic legislation. In April 2017, a bill was introduced into the Mexican Senate as an amendment to Mexico's intellectual property law. This amendment would address overseas products with protected denominations of origin and corresponding geographical indicators.<sup>6</sup>

## Implementation and enforcement of new regulations to benefit consumers

Currently, NOM-243-SSA1-2010 establishes the general provisions, sanitary specifications and testing methods for milk, formulas, and byproducts. NOM-155-SCFI-2012 establishes name specifications, physical-chemical specifications, commercial information, and more.

Mexico's sanitary and commercial authorities continue to discuss the development and eventual approval of the norm PROY-NOM-144-SSA1-1995, which would establish provisions and requirements for rehydrated, reconstituted, pasteurized and ultra-pasteurized milk.

In 2017, it is expected that draft norms<sup>7</sup> for rehydrated milk<sup>8</sup> and yogurt, will be published for comments. The norms are expected to address issues of quality. Draft norms for powdered milk and cheese are also expected in the medium-term.

Dairy, Milk, Fluid 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						
Cows In Milk	6400	6400	6450	6450	6500	6500
Cows Milk Production	11736	11736	11934	11956	12100	12100
Other Milk	164	164	166	165	177	170

<sup>6</sup> The text of the bill can be found here: <http://www.senado.gob.mx/index.php?ver=sp&mn=2&sm=2&id=70608>.

<sup>7</sup> Known as NOMs or Normas Oficiales Mexicanas.

<sup>8</sup> <http://www.economia-noms.gob.mx/normas/noms/1996/p144ss195a.pdf>

<b>Production</b>						
<b>Total Production</b>	11900	11900	12100	12121	12277	12270
<b>Other Imports</b>	41	41	45	48	50	50
<b>Total Imports</b>	41	41	45	48	50	50
<b>Total Supply</b>	11941	11941	12145	12169	12327	12320
<b>Other Exports</b>	11	11	14	12	14	14
<b>Total Exports</b>	11	11	14	12	14	14
<b>Fluid Use Dom. Consum.</b>	4185	4185	4183	4183	4186	4186
<b>Factory Use Consum.</b>	7745	7745	7948	7974	8127	8120
<b>Feed Use Dom. Consum.</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	11930	11930	12131	12157	12313	12306
<b>Total Distribution</b>	11941	11941	12145	12169	12327	12320
(1000 HEAD) ,(1000 MT)						

## Dairy, Cheese

### Production:

#### **Cheese production demands high quality milk**

Mexico produces one of the widest varieties of cheeses in Latin America. Around 60 varieties are produced domestically, principally dominated by soft white cheeses such as “Fresco,” “Oaxaca”, “Ranchero,” “Chihuahua,” and “Manchego” styles. Other domestic varieties include “Panela,” “Doble Crema,” “Amarillo,” and “Cotija.” Production in 2017 is forecast at 290,000 MT, a marginal increase of 1.8 percent from 2016. This is in part due to a forecasted increase in fluid milk production as well as sustained demand. The 2016 figure was maintained.

The production of high quality cheeses requires high quality milk. Noting the deficit of high quality milk produced domestically, cheese processors struggle to find domestic inputs. They also compete with other dairy processors for the limited supply of high quality domestic milk. As such, imports of fluid milk fill the gap.

### Consumption:

#### **Cheese consumption driven by higher income population**

In 2017, fresh and aged cheese consumption will be defined by income and inflation. As with other food products, the purchasing power of the middle and lower income population has been depressed. However, cheese is a staple in the Mexican diet (as toppings on tacos, corn, and various street foods, as well as in pastries, and quesadillas), and growth is principally driven by the upper middle to upper income population. As such, 2017 consumption is forecast to be 414,000 MT, continuing growth. Based on this projection, per capita consumption is slightly more than 3 kilograms, but industry maintains that there is the potential to increase consumption to 4-5 kilograms in the medium term. Consumption for 2016 was adjusted up marginally to include a slight increase in imports.

In general, soft white cheeses (as enumerated above and for the most part freshly made) are staples in the diet of the middle and lower income population. However, hard and semi-hard cheeses (considered gourmet cheeses) are consumed by the middle to high income population, and at a lower rate. Tastes in cheeses are shifting at the high end of the spectrum, but not at a rapid pace. The widest variety of cheeses can be found in chain grocery stores such as Chedraui, City Market, and Soriana, while at small stores and traditional markets only the fresh soft white cheeses can be generally found. Cheese in Mexico is marketed by variety/type and brand.

The 2016 consumption estimate was revised down based on input from industry sources which cited the reduced purchasing power of consumers at the end of the year for which the holiday season did not compensate.

#### **Trade:**

#### **Imports account for more than a fourth of cheese consumption**

Imports are forecast at 130,000 MT in 2017, a 3.1 percent increase from 2016 to fill the gap between production and demand. The United States remains the principal supplier of cheese and raw materials for making cheese. Cheese from the United States include more than 25 varieties such as Mozzarella, Cheddar, Cream Cheese, Monterey Jack, Havarti, Gouda, Brie, Camembert, Blue, and Gorgonzola. The U.S. market share for cheese faces competition from both the European Union (EU) and New Zealand, particularly as Mexico has intensified diversification efforts. Uruguay also maintains a small but growing share in the market (7 percent in 2016).

The European Union is looking to expand the benefits they currently have under WTO provisions for powdered milk (the TRQ for third countries), and duty free access for butyric fat, The duty Mexico applies to cheese imports from third countries under WTO provisions is set between 20 to 45 percent *ad valorem*.<sup>9</sup> EU member countries are WTO members in their own right. The 2016 imports were raised slightly based on updated trade data from Mexico's National Institute of Statistics and Geography (INEGI).

Mexico's 2017 cheese exports are expected to grow to 6,000 MT, but are highly dependent on the availability of fluid milk. In the first two months of 2017, exports were almost 50 percent higher than 2016. Mexican cheeses face stiff competition in the international marketplace as well as low prices, but

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<sup>9</sup> One exception is that *Reggiano* cheese imports are duty free. See: <http://www.sicex.gob.mx/portalSicex/SICETECA/Decretos/Arancel/Tigie/tigiox.htm>

have found niche markets in both the United States and Central America which demand similar cheeses (such as Oaxaca style). The 2016 figures remain the same as per data from INEGI.

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	293	290
Other Imports	116	116	125	126	130	130
Total Imports	116	116	125	126	130	130
Total Supply	396	396	410	411	423	420
Other Exports	5	5	5	5	5	6
Total Exports	5	5	5	5	5	6
Human Dom. Consumption	391	391	405	406	418	414
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	391	391	405	406	418	414
Total Use	396	396	410	411	423	420
Ending Stocks	0	0	0	0	0	0
Total Distribution	396	396	410	411	423	420
(1000 MT)						

## Dairy, Butter

### Production:

#### Butter production faces fierce competition for fluid milk

The forecast for 2017 butter production is 210,000 MT. Despite the competition for inputs (i.e., fluid milk) from other dairy processor, demand for butter in bulk from the confectionary and bakery sectors is sustained. Butter is also produced for direct consumption by consumers and sold at various small shops and chain grocery stores. The 2016 estimate remains 205,000 MT.

### Consumption:

#### There is butter in the batter

For 2017, consumption of butter is expected to increase to 257 MT, going principally to the hotel, restaurant, and institutional (HRI) sector for baking, but also directly to consumers. Consumers also

indirectly consume butter through bakery goods. During 2017, the demand from the HRI sector and households is expected to maintain the same strong levels as 2016. The 2016 consumption figure was revised down slightly due to limited imports and depressed purchasing power in lower income populations, but still represents year on year growth.

### **So long margarine! Butter is retaking its place on the table**

Consumer preferences are shifting and there is a general trend to move back to butter from margarine based on perceived health benefits particularly among medium to high income consumers. Margarine had originally replaced butter due to a lower fat content, but the consumers are now becoming aware of higher trans-fat levels in margarine than butter. This in turn has incentivized production as well.

In Latin America, Mexico is among the highest consumers per capita of butter, but lags behind other areas of the world, principally countries such as the United States and Europe nations.

### **Trade:**

#### **Mexico among the top-ten importers of butter and butterfat**

To fill the gap between what domestic processors can produce and demand, Mexico historically imports around 20-25 percent of the butter it consumes. In 2017, the import forecast for butter (HTS 040510) and butterfat (HTS 040590) is 62,000 MT in keeping with the recent growth trend. During 2016, Mexico was one of the top-ten importing countries of butter and butter oil worldwide. New Zealand is the dominate supplier of butter and butterfat to Mexico (90 percent in 2016), followed at a distance by the United States (roughly 3 percent), the Netherlands, Chile, and Australia. The 2016 figure was adjusted based on official data.

Exports are forecast up at 15,000 MT for 2017. The 2016 figure was adjusted based on official data. In 2016, although a small exporter, 95 percent of exported butter products went to the United States. Mexico is in search new niche markets and seeks to expand their scope of dairy products. In general, the unwritten market rule is to export the highest quality products, and this combined with diversification efforts is supporting exports.

Dairy, Butter 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						
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	195	195	205	205	210	210
<b>Other Imports</b>	43	43	60	52	62	62

<b>Total Imports</b>	43	43	60	52	62	62
<b>Total Supply</b>	238	238	265	257	272	272
<b>Other Exports</b>	10	10	16	12	20	15
<b>Total Exports</b>	10	10	16	12	20	15
<b>Domestic Consumption</b>	228	228	249	245	252	257
<b>Total Use</b>	238	238	265	257	272	272
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	238	238	265	257	272	272

(1000 MT)

## **Dairy, Skim Milk Powder (SMP)<sup>10</sup>**

### **Production:**

#### **New infrastructure may spur productivity**

Historically, the production level ratio has always been in close relation to the availability of fluid milk. For 2017, estimates are set to continue at 55,000 MT due to the demand of fluid milk by other dairy processors. The demand from other dairy processors has limited SMP production over the years, as well as a lack of insufficient storage infrastructure. There are two new drying facilities being built in Jalisco and Aguascalientes. While they will primarily serve to produce whole milk powder, there may be surpluses of fluid milk, which go to SMP. The 2016 production estimates are unchanged.

### **Consumption:**

#### **Dairy processors remain the primary consumer of SMP**

Consumption is estimated with continued growth at 347,000 MT for 2017. As with other processed dairy products, the younger generations along with traditional consumers are demanding higher volumes of specialty processed products prepared with SMP. Large processors have responded by researching and producing new dairy products with greater health benefits. Given that the vast majority of SMP is consumed by private processors to prepare dairy products or to be reconstituted into specialty milk, LICONSA's consumption of SMP is almost negligible. Consumption figures for 2016 were adjusted up to account for the increased demand in imports.

### **Trade:**

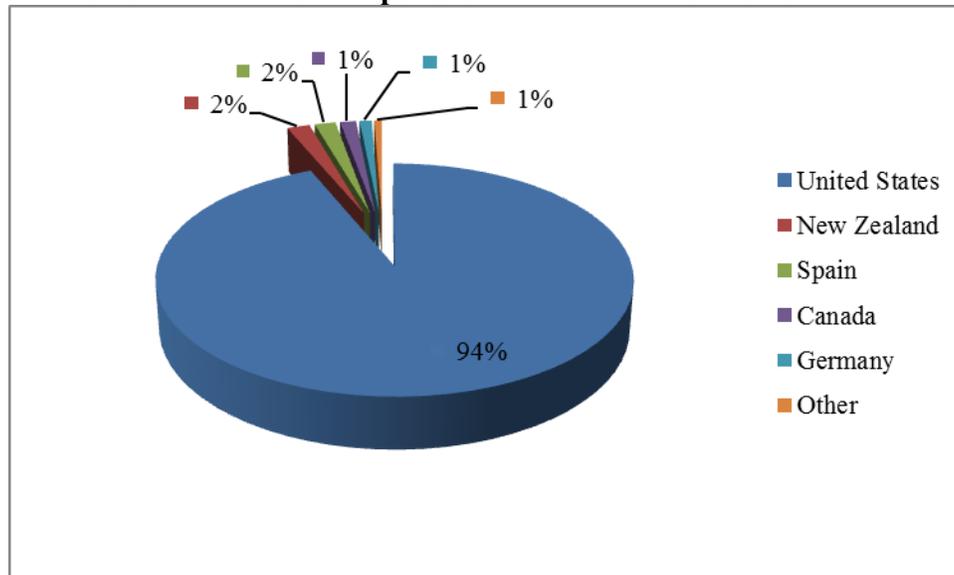
#### **Competition for SMP market share is fierce**

<sup>10</sup> In previous reports, SMP was referred to as NFDM or Non-Fat Dry Milk. This is the same product.

As in the past, Mexico's flat production of SMP compels increases imports to cover the needs of processors. Imports are forecast at 295,000 MT for 2017 due to this sustained demand.

Despite fierce competition from the EU and New Zealand exporting SMP at attractive prices, the United States will continue being Mexico's main supplier. However, Mexico is looking for parallel suppliers to guarantee their supply. The dairy private sector has expressed concerns to the GOM regarding competition from imported products. Import figures for 2016 were revised up to reflect latest official data.

**Chart 2. Mexico's Imports of WMP from the World – 2016**



Data Source: INEGI, 2017

**Figure 1. Mexico's SMP Imports, by point of entry and exporting country**



Data Source: INEGI, 2017

### Mexico begins to look at the export market

Traditionally a negligible exporter of SMP, exports jumped to 3,000 MT in 2016. Therefore, the 2017 estimate is forecast to maintain this new outward looking market.

### Policy:

### TRQs offer competition for powdered milk

As established in the *Diario Oficial* (Federal Register) publication of December 19, 2012, Mexico maintains a tariff-rate quota (TRQ) for imported powder milk under HTS 0402.10.01 (SMP) and 0402.21.01 (WMP) from WTO countries of 80,000 MT. This updated previous TRQ allotments. Out of that amount, 40,000 MT can be allocated to LICONSA and the remaining amount can be allocated among the private sector. According to LICONSA, 24,000 MT of powdered milk were imported from all sources during 2016 under its purchasing program. EU member states that by their own right are WTO members may take advantage of this TRQ, along with other countries such as New Zealand. However, only a few EU countries have utilized this TRQ to date despite attractive dairy prices. Current imports from the U.S. are duty-free under NAFTA, and there is no TRQ for U.S. powdered milk.

According to the 2017 Import and Export General Tax Tariff (TIGIE), effective on January 1<sup>st</sup>, 2017, the duty applied to imports from third countries for SMP under HTS 0402.10.01 with whom Mexico does not have a free trade agreement is 45 percent *ad valorem*.

Dairy, Dry Skim Milk Powder	2015	2016	2017

Market Begin Year	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	55	55
Other Imports	259	259	280	286	290	295
Total Imports	259	259	280	286	290	295
Total Supply	314	314	335	341	345	350
Other Exports	0	0	1	3	1	3
Total Exports	0	0	1	3	1	3
Human Dom. Consumption	314	314	334	338	344	347
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	314	314	334	338	344	347
Total Use	314	314	335	341	345	350
Ending Stocks	0	0	0	0	0	0
Total Distribution	314	314	335	341	345	350
(1000 MT)						

## Dairy, Whole Milk Powder (WMP)

### Production:

#### WMP production struggling to produce more specialty dairy products

For 2017, the forecast production of WMP is slightly up from the 2016 figure at 157,000 MT as its production in Mexico, by far, is larger than SMP. Processors use WMP for reconstitution into fluid milk, sweetened milk, yogurts, and for the preparation of specialty powder milk for infants and toddlers (including differing options based on a child's growth). Historically, Mexico's production of WMP domestically has not met demand. The two new drying facilities will support production. As previously reported, WMP is the most important powdered milk product produced, and if there are surpluses, the milk is then channeled to the production of SMP. The 2016 figures are unchanged.

#### Infant formula a key subdivision of the powdered milk sector

This sector is enlarging to cover a wider range of consumers such as toddlers. As previously reported a processing plant in Jalisco to produce infant formula for both domestic consumption and for exports presents a challenge for high quality inputs such as WMP and fluid milk. There are other active infant formula processors who also export to the Latin American region in Mexico. As such, the demand for inputs is growing quickly.

### **Consumption:**

The consumption forecast for 2017 is kept at 2016 levels, 148,000 MT, as processors continue using high volumes of WMP for the preparation of specialty dry milk, as previously mentioned, and other value-added products. Currently, private companies offer packaged WMP to consumers for reconstitution. Beyond reconstitution, LICONSA also packages WMP to distribute in locations that lack refrigeration at a lower cost. In the coming years, however, consumption is expected to steadily increase.

### **Trade:**

#### **A dynamic import-export flow trade is in the horizon**

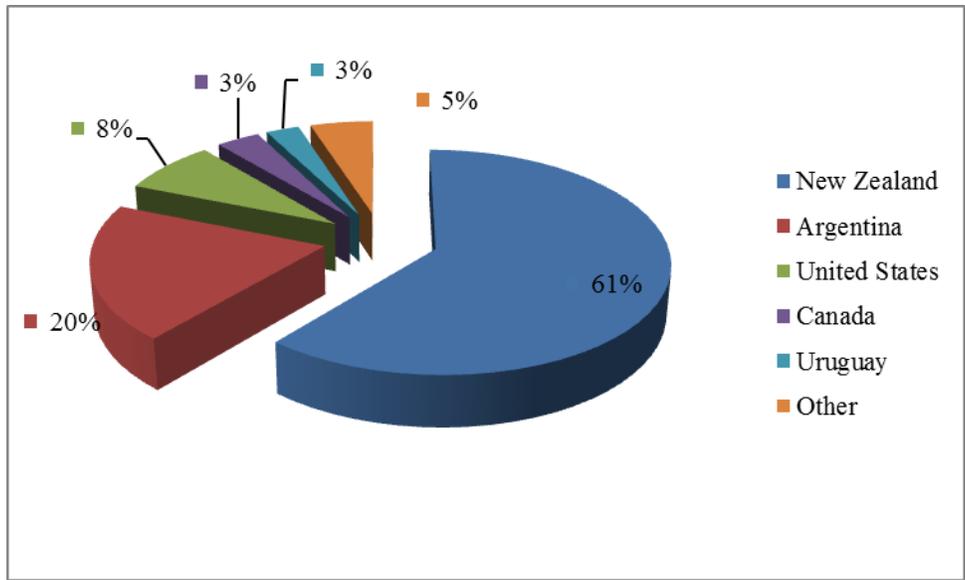
For 2017, the import forecast is 13,000 MT, which is marginally up from the 2016 level. This is due to increased fluid milk production and demand. Historically, imports and exports are defined by the availability of fluid milk to prepare WMP. As such, the strong demand from processors may entice further imports if domestic production is not able to fill the gap.

The importation of WMP has always been a sensitive issue in Mexico. Most imports come in under duty-free quotas that Mexico has granted to third countries which are members of the WTO. Without a duty free quota or a free trade agreement, the tariffs on dairy products can be quite high.

Mexico principally imports WMP from New Zealand (with more than 60 percent of the market share in 2016), as well as Argentina, the United States, and Canada. The United States held 8 percent of the market share in 2016. It is worthy of note that in 2016 Mexico's imports were much more diversified (11 countries), than in previous years.

According to the 2017 Import and Export General Tax Tariff (TIGIE), effective on January 1<sup>st</sup>, 2017, the duty applied to imports from third countries for WMP under HTS 0402.21.01 with whom Mexico does not have a free trade agreement is 45 percent *ad valorem*.

### **Chart 3. Mexico's Imports of WMP from the World – 2016**



Source: INEGI, 2017

**Figure 2. Mexico’s WMP imports, by point of entrance and by exporting country**



Data Source: INEGI

**Seeking export diversification**

As with other dairy products, Mexico is looking to expand and diversify its exports. As such, exports are forecast at 22,000 MT. The primary destinations for Mexican WMP are Colombia, the United States, and Cuba. Mexico also supplies several other Caribbean countries.

Dairy, Dry Whole Milk Powder Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	155	155	156	156	157	157
Other Imports	7	7	12	12	13	13
Total Imports	7	7	12	12	13	13
Total Supply	162	162	168	168	170	170
Other Exports	11	11	20	20	20	22
Total Exports	11	11	20	20	20	22
Human Dom. Consumption	151	151	148	148	150	148
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	151	151	148	148	150	148
Total Use	162	162	168	168	170	170
Ending Stocks	0	0	0	0	0	0
Total Distribution	162	162	168	168	170	170

(1000 MT)

#### Other Relevant Reports Submitted by FAS/Mexico

Report Number	Subject	Date Submitted
<a href="#">MX6037</a>	Dairy Annual	11/01/2016
<a href="#">MX6020</a>	Dairy Semi Annual	20/05/2016

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**Useful Mexican Web Sites:** Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at [www.sagarpa.gob.mx](http://www.sagarpa.gob.mx), equivalent to the U.S. Department of Commerce (SE) can be found at [www.economia.gob.mx](http://www.economia.gob.mx) and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at [www.salud.gob.mx](http://www.salud.gob.mx). These websites 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.