

Required Report - public distribution

Date: 6/1/2009

GAIN Report Number: MX9317

Mexico

FOOD PROCESSING SECTOR

The Food Processing Ingredients Sector in Mexico

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Report Highlights:

Although the global economic downturn has impacted Mexico, long term expectations for the food processing sector remain promising. The increase in per capita incomes over the past decade, the shortfall in domestic supply, and the positive perception of U.S. products are market drivers in the food ingredients sector. Additionally, the average Mexican consumer is demanding higher quality and a wider variety of food products. The food ingredients sector accounts for 57% of total processed food production. The size of the ingredients market is estimated to be around US\$48 million. Some product imports like cereals have increased significantly during the past year.

Post:

ATO Mexico City

Commodities:

Executive Summary:

SECTION I. MARKET SUMMARY

Mexico continues to have a vibrant food processing ingredients sector despite the ongoing economic downturn. The ingredients sector is driven mainly by middle and upper class consumers, due to their rising per capita incomes. These consumers are demanding higher quality and a wider variety of food products. Some other important sectors including retail, hotel, restaurant, and tourism have also contributed to this growth. Innovative marketing

techniques and the strong standing of U.S. products are appealing to Mexican consumers making long term prospects for U.S. food products promising.

Over the past decade, Mexico has benefited from sound economic policies that resulted in a stable economic GDP growth rate of 3.2% in 2007, 1.4% in 2008 (est.), and a low 4.1% unemployment rate for 2008 [1]. Although Mexico's Foreign Direct Investment (FDI) has experienced a decrease from \$27.2 billion in 2007 to \$18.6 billion in 2008 [2], the Organization of Economic Cooperation and Development has stressed that the government's structural reforms and public policies have better equipped Mexico to face the global economic downturn in 2009 [3], especially compared to the economic crisis of 1995.

Mexico's population has more purchasing power than ever with per capita income reaching \$14,200 in 2008 (est.) [4]. This wage increase has been the driving force behind the growth of the retail sector, especially in urban areas where 77% of the population lives [5]. The expansion of urban areas and the general acceptance of the modern lifestyle has driven the growth for processed foods. The local industry has been successful in keeping pace with demand.

I.A. Food Processors in Mexico

There are 578 enterprises registered at the Mexican Entrepreneurial Information System (Sistema de Informacion Empresarial Mexicano, SIEM) database that are food processors in Mexico. However, there are only twelve food processors registered as "ingredients" companies. Seven of them are found in Mexico City and the surrounding areas [6].

I.B. Size of the Food Ingredients Industry

The food ingredients portion of the processed food sector accounts for a large part (57%) of total processed food production. Determining the market size is difficult, but it is estimated at \$48 million. Grains, sugars and sweets, meat-related, bakery, and snacks are the commodities that experienced the largest increase [7]. U.S. imports of ingredients that are used as inputs have been significant in recent years. These products are demanded because they contain specialized content that is difficult to source in the domestic market. However, many local processors are developing handy and convenience foods for the growing working class. Additionally, FAS USDA has estimated an 8% growth rate for the food ingredients industry in 2009.

**Table 1. Mexico: The Market Size of Ingredients Used in Food Processing, 2002-2007.
(By Industry, in Mexican Pesos)**

Product	2002 (A)	2003 (A)	2004 (B)	2005	2006	2007
Oil seeds and grains milling	40,346,171	47,106,425	N/A	61,754,750	66,315,055	78,047,971
Sugar, chocolates, sweets and similar	32,930,665	36,197,813	N/A	50,663,204	54,370,202	56,642,516
Meat filet and packaging; cold meats and canned meat preparations	13,651,913	14,599,121	N/A	21,298,904	23,518,942	24,110,306
Bakery	29,675,205	34,119,353	N/A	41,958,454	44,647,988	49,829,790
Other food industries	38,818,962	40,080,129	N/A	47,117,016	49,708,495	53,507,718
Total Ingredient	155,422,916	172,102,841	N/A	222,792,328	238,560,682	262,138,301
Total Food Industry	420,976,997	453,648,594	N/A	388,503,611	411,641,683	458,372,205

*Industries identified in the table account for 85% of total industry production.

**Mexican pesos are used to estimate the growth rate for 2009.

Source: Encuesta Industrial Anual 2002-2003, Encuesta Industrial Anual 2005-2006, & Encuesta Industrial Anual 2006-2007, INEGI.

(B) 2004 Information was not available.

(C) The Economist - estimated GDP growth rate for Mexico is -4.40% for 2009

I.C. Imports of Ingredients for Food Processing

Mexico is a major food importer because domestic food production is insufficient to meet local demand. Imports from the United States are perceived as higher quality and include a wider array of products. The largest import items from abroad are soybeans, raw peanuts, cereals, meat, and dairy products. The import of cereals, for example, increased 228% from 2007 to 2008.

**Table 2. Mexico: Imports of Ingredients from the World , 2005-2008.
(By Commodity, in Millions of US\$)**

Commodity	2005	2006	2007	2008	% Change (2007- 2008)
Meat	188.235	204.632	217.064	251.252	15.75
Dairy, eggs, honey, etc.	59.954	77.821	71.922	118.011	64.08
Spices, coffee & tea	9.782	8.35	9.248	13.747	48.65
Cereals	100.241	111.791	116.591	382.287	227.89
Milling, malt, starch	37.332	39.821	105.988	36.361	-65.69
Misc. Grain, Seed, Fruit (1)	92.867	96.939	135.259	247.479	82.97
Fats and oils	46.093	64.683	73.891	94.878	28.40
Prepared meat, fish, etc.	18.612	17.299	26.796	27.077	1.05
Sugars	17.28	24.507	39.101	47.742	22.10
Cocoa	17.475	24.592	32.808	33.149	1.04
Baking related	40.171	31.317	34.755	39.898	14.80
Preserved food	32.089	41.244	47.504	47.998	1.04
Miscellaneous Food (2)	51.141	65.402	87.589	96.441	10.11
Total	711.272	808.398	998.516	1,436.32	43.85

Source: World Trade Atlas & Secretaria de Economia. May 14, 2009.

- Misc. Category includes Grain, Seed and Fruit. Specific products are soybeans; raw peanuts; rape of colza seeds; oleaginous nut / fruit; flour, meal of oleaginous; flour, meal of oleaginous; hope cones, lupulin; other edible.
- Miscellaneous food includes extract of coffee, etc.; yeasts, baking powder; soup, broth, and preparations; other kinds of preparations; and others.

I.D. Market Development and Trends

U.S. suppliers capture the dominant share of Mexican imports of cereals and are well positioned to capitalize on increased demand for high quality processed ingredients, despite their higher price compared to domestic products. There is a strong and growing dependence on imports in the retail industry. The latest industry trend is for more food products that are regarded as healthy, nutritious and lower fat. Since Mexicans are becoming health conscious, most healthy and easy-to-prepare products with an appealing packaging is headed for success. Mexican processors are now looking for food ingredients with these qualities.

The domestic industry is a traditional supplier for products such as crushed tomatoes for

soups, canned corn, and cheese garnish for traditional foods. Because low cost ingredients are used for these products, quality tends to be lower. Conversely, products that use high quality ingredients are usually used by companies that target middle and upper income consumers.

These consumers are the driving force behind consumption in all sectors: retail, food service, and food processing.

For the advantages and challenges facing U.S. exporters targeting Mexico’s food processing sector, please refer to the following Table (3).

Table 3. Mexico: Advantages and Challenges for U.S. Exporters Targeting Mexico’s Food Processing Sector.

Advantages	Challenges
The United States is already a leading supplier of ingredients to Mexico’s food processing industry.	Mexico started a strong nationalist media campaign promoting local consumption to protect the domestic industry. One such institutionalized campaign is called “Mexico Calidad Suprema”.
A wider variety of U.S. products are present in most supermarket chain stores than products from other countries.	Competition to U.S. products is growing from Mexican, Asian and European food processing suppliers.
An increasing growth in almost all sectors of the processed food industry through injection of national and international investment, and women’s stronger purchasing power.	As Mexico’s transportation and distribution infrastructure improves, other countries will be able to deliver product more efficiently to the Mexican market.
Major retailers are developing sophisticated distribution systems, by providing more space and better cold chain technology for high value imports.	U.S. firms must aggressively promote new business activities; establish in-country sales channels; and, servicing infrastructure.
A general perception of American products as being high quality compared to other imported products.	The European Union, Chile and other Central and South American countries have free trade agreements with Mexico giving them preferential treatment for some products.
Because of NAFTA, U.S. products have preferential import duties compared to products from many third country suppliers. NAFTA was fully implemented in January 1, 2008.	Mexico introduced new tariffs on agricultural and manufactured products in retaliation for the abolishment of the U.S. pilot trucking program. Nevertheless, both governments have signaled a willingness to resolve the issue as soon as possible.
Imported U.S. raw materials by Mexican food processors are subject to less stringent labeling requirements.	Labeling, phyto-sanitary, sanitary and NOM (Mexican quality standards) regulations continue to be obstacles for some U.S. products.
Mexico’s domestic production of poultry, red meat, cocoa, grains and flour, sugar, cereals, canned fruits, pet food and dairy products cannot meet domestic demand. Hence, U.S. food and commodity supplies have accommodated Mexican demand [8] .	Third country suppliers are opting for more flexible payment mechanisms and are in constant contact checking product availability.
Geographical closeness gives U.S. exporters a competitive advantage over third country suppliers.	Rising costs of food products may lower imports. There is a lack of strong marketing product promotion and presence in local trade events. Also, the H1N1_flu outbreak is having an impact on demand for pork.

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

There are several reasons U.S. exporters should consider exporting to Mexico to supply the food ingredients market. Mexico maintains zero tariffs for most agricultural products (final implementation of NAFTA in January 1, 2008); geographical proximity; low transportation costs and U.S. products have a positive consumer perception. Also, U.S. products have

several competitive advantages compared to other products: they are high-quality, have easy-to-open packaging, and optically have a good appearance. The middle and upper classes also purchase U.S. products because they are perceived as innovative.

To effectively export products into Mexico, strong relationships with buyers are fundamental to a successful outcome. Establishing good relationships in Mexico will also serve U.S. exporters well. Local distributors or importers can assist in understanding import requirements which can be cumbersome, can explain labeling requirements more clearly, and can identify specific sanitary or phytosanitary requirements. When introducing products into Mexico, the following should be considered:

- *Sell through a Mexican distributor or representative.* For smaller quantities or perishable products, Mexican food processors may insist on purchasing from a local supplier. U.S. companies should secure a Mexican distributor of similar but non-competitive products. Generally, the representative acts as a sales agent taking orders for products shipped directly. Alternatively, the representative can serve as an importer who stocks and distributes the product through its own sales channels.
- *Establish a Mexican sales subsidiary to sell direct.* Foreign firms with higher sales volume frequently have their own representative offices in Mexico, providing sales support or warehousing with distribution services. Companies in the food processing sector prefer direct sales over working through a distributor.
- *Traveling to Mexico provides the U.S. exporter a better feel for the market.* A visit to Mexico will allow the U.S. exporter to identify specific needs, get to know potential distributors and customers and their demands, and identify the best distribution method. The Agricultural Trade Offices can provide a comprehensive list of contacts, suggest specific events and relevant shows, and can arrange meetings with perspective clients.
- *Participating in shows.* Although there is no trade show in Mexico that solely focuses on the food processing ingredients sector, there are shows for specific categories such as baked goods (MexiPan and ExpoPan), confectionary (Confit Expo), and others. For further information, please contact us at ATOMexico@usda.gov.

A.1. Distribution and Transportation

There are several factors that Mexican food processors consider when deciding between purchasing domestic or imported raw materials.

- Transportation costs and potential border clearance delays are factors to be considered.
- Storage and refrigeration costs must be one of the exporters' main considerations.
- Ground transportation is advised since the largest Mexican markets for processed food products are located in the interior of the country.
- Maritime transportation of bulk commodities may be used for delivery to Cancun. One example is Bimbo, which imports wheat from the United States which is shipped to

Merida. From there, products are transported by ground to the company's main processing plants.

- U.S. truck companies cannot bring merchandise directly from the United States to Mexico. Shipments should be driven to the border and then transferred to a Mexican rig. Use of an internationally bonded carrier who has an established relationship with Mexican carriers is advised. A typical scenario is that U.S. exporters are responsible for delivering products to the border. The importing company will then take care of customs clearance and transportation to the processing plant.

B. Market Structure

Most raw materials used by food processors are purchased directly from the producer through their local direct-hire representative in Mexico. Large companies have reported that they purchase 75 to 80 percent of their raw materials from a supplier with local representatives [9]. They possess the know-how and local contacts necessary to do business in Mexico.

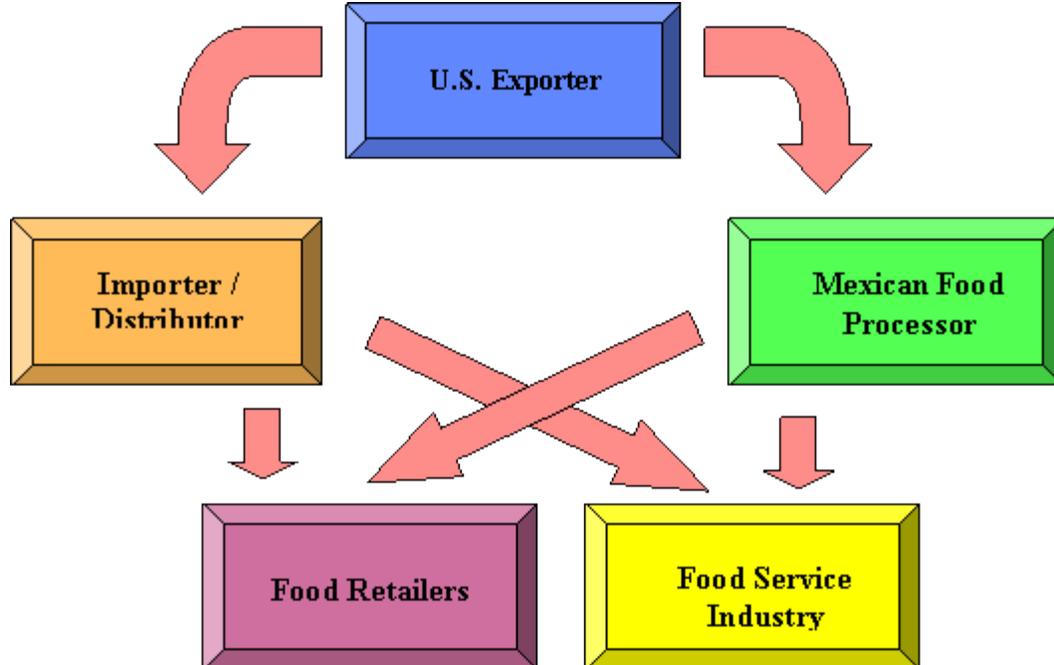
Expenditures on food is very important and significant in Mexico. Food accounts for 29.4% of total income expenditures, transportation accounts for 18.9%, housing costs for 15.3% and education 12.5%. Supermarkets account for the largest portion of retail sales at 57%, public markets account for 28%, corner stores or 'tienditas' for 9%, hypermarkets 4% and 2% other [10] .

It is important to note that the third largest food retailer Comercial Mexicana (Comerci) sought bankruptcy protection after its debt sky-rocketed due to the Mexican peso devaluation.

Although other retailers like Walmart and Soriana could capitalize from Comerci's foreclosures, it announced that it will pay 18.8 billion pesos (or 1.4 billion U.S. dollars) of its debt [11] .

Per capita retail sales in Mexico have increased every year as per capita GDP has also increased. In 2008, retail sales amounted for \$52.1 billion U.S. dollars. Additionally, the market share captured by specialty stores has decreased ever since the demand for larger, more modern and more varied retail stores increased [12] .

Diagram 1. Mexico: Product Distribution Channel Flow - From the U.S. to Mexico.



C. Company Profiles

Table 4 contains food processing ingredient companies by product category, as well as their contact information. Table 5 illustrates annual sales of the largest food processors, their end-use channel, product location and number of processing plants.

Table 4. Mexico: Industry Contacts of the Ingredients for Food Processing Sector (By Product Category)

Product Category	Organization	Contact	Phone and Fax*
Red eats and poultry meat	Grupo Bafar S.A. de C.V.	Ing. Antonio Lugo; Purchasing Director	Tel: (614) 439 0100 Fax: (614) 439 0123
	Pilgrims Pride	David Goldstein Weitzman; Consultant	Tel: (55) 5448-8300
	Qualtia Alimentos Procesados	Francisco Burgos; Purchasing Director	Tel: (81) 8030 3000 Fax: (81) 8030 3000
Dairy products	Alfa S.A. de C.V.: Sigma Alimentos S.A. de C.V. (also meat)	Daniel Moreno; Purchasing Director	Tel: (81) 8748-1111 Fax: (81) 8748-2552
	Danone de Mexico	Purchasing Director	Tel: (55) 5258-7200; (55) 5292-2593
	Grupo Industrial Lala	Ing. Juan Antonio Towns; Purchasing Director	Tel: (871) 750 0504 Fax: (871) 750 0504
	Nutrisa	Sofia de Hoyos Correa; Nutrition Coordinator	Tel: (55) 5424-6600 Fax: (55) 5424-6600
Prepared fruit, vegetables; oilseed products	Grupo Herdez	Angelica Piña Garnica; Director of Investor Relations	Tel: (55) 5201-5602 Fax: (55) 5201-5646
	Industrial Aceitera	Hector Garcia Padilla; Purchasing Director	Tel: (55) 5393-8500 Fax: (55) 5562-8127
	Productos del Monte	Alejandro Geis; Production-Manufacturing Director	Tel: (55) 5536-3040 Fax: (55) 5687-5975
Confectionary products	Chupa-Chups Industrial Mexicana	Borja Garcia; Plant Manager	Tel: (722) 276-6880 Fax: (722) 276-6881
	Galdisa (also grain, dried fruit and snacks)	Alejandro Hurtado Figueroa; Trade Director	Tel: (55) 5630-4616 Fax: (55) 5630-4623
	Grupo de la Rosa	Jorge Arturo Orozco; Production Manager	Tel: (33) 379 80850
	Hershey Mexico	Guadalupe Bracho; Materials Manager	Tel: (33) 3678-3232 Fax: (33) 3678-3292

Baked goods	Dawn Food Products, Inc.	Patricio Ruiz; Purchasing Manager	Tel: (81) 8389-5400
	Gastronomia Avanzada	Claudia Cobian; Research and Development	Tel: (55) 55 5716 7691 Fax: (55) 55 5716 7601
	Gruma S.A. de C.V.: GIMSA S.A. de C.V.	Ing. Jose Kipper Hinojosa; Purchasing Director	Tel: (81) 8399 3300 Fax: (81) 8399 3300
	Grupo Bimbo: Barcel, Ricolino, Marinela, Pan Bimbo (also confectionary & snacks)	Ing. Jose F. Suarez de la Torre; Purchasing Director	Tel: (55) 5268 6600 Fax: (55) 5268 6640
	Grupo Minsa	Ing. Andres de la Garza; Agrarian Business Director	Tel: (55) 5722-1900 / 1906
	Grupo Taifeld	Ing. Manuel Taifeld; Director	Tel: (55) 5524-5744 Fax: (55) 5524-0756
	Productos Rich	Alberto Roca; Research and Development Manager	Tel: (55) 5387 3678 Fax: (55):555387 3678
Snack foods	Grupo Gamesa	Jose Carlos Rodriguez; International Purchasing Manager. Gilberto Recio; Inputs Purchasing Manager	Tel: (81) 8399 5155 Fax: (81) 8399 5155
	Nacional de Alimentos y Helados S.A. de C.V. (also ice cream)	Jorge Elizundia; General Manager	Tel: (81) 8122 2300 Fax: (81) 8122 2300
	Sabritas	Jorge A. Meyer Franco; Logistics-Warehouse Director	Tel: (55) 5227-7400 Fax: (55) 5227-5619
Beverages	Cerveceria Cuauhtemoc-Moctezuma	Emilio Herrera; Trade Import Export Manager	Tel: (55) 5333-2400 Fax: (55) 5333-2419
	Extractos y Maltas	Felipe Suberbie Cortina; General Director	Tel: (55) 5567-9022 Fax: (55) 5567-8019
	Grupo Modelo	Jose Pares Gutierrez; Director of Investor Relations	Tel: (55) 5283-3600
	Jugos del Valle	Lic. Miguel Vargas Lopez; Trade Import-Export Director	Tel: (55) 5899-1000 Fax: (55) 5876-1086
	La Madrilena	Miguel Angel Cortina; Inventory Manager	Tel: (55) 5445-1200 Fax: (55) 5445-1270
	Pepsi-Cola de Mexico	Hugo Gomez; Tools Trade Vice President	Tel: (55) 5261-4500; (55) 5261-4599
Dry goods and condiments	Kraft Foods de Mexico (groceries)	Guillermina Reyes Pichardo; Trade Import-Export Director	Tel: (55) 5258-8774 Fax: (55) 5258-8868
Specialized food ingredients	Almidones Mexicanos (starch, glucose raw materials)	Guillermo O. Hope; Trade Import Export Manager	Tel: (33) 3668-4520 Fax: (33) 3668-4521
	CP Ingredientes (corn milling & syrup)	Ing. Rafael Doporto Guerrero; Trade Import Export Manager	Tel: (55) 5366-5600 Fax: (55) 5333- 5090
	Cargill Servicios (dist. Grains, sugar, and animal feed)	Robert Aspell; Trade Import Export Manager	Tel: (55) 5246 7400 Fax: (55) 5246-7891
Others	Embotelladoras Arca S.A. de C.V. (bottling)	Ing. Francisco Garza; Director	Tel: (81) 8151 1400 Fax: (81) 8151 1449
	General Mills (imports of food products)	Carlos Quintana; Operations Director	Tel: (55) 5089-0202 Fax: (55) 5089-0244
	Kelloggs (cereals)	Jahiro Quiroz; Production-Manufacturing Director	Tel: (442) 211-1300 Fax: (442) 216-3861
	Nestle de Mexico (milk prod., cereal, coffee, drinks, flour mixes, chocolates)	Dr. Felix Martinez; Trade Import-Export Director	Tel: (55) 5262-5000 Fax: (55)5250-7965
	Procter and Gamble	Jose Luis Oviedo; Trade-Import-Export Director	Tel: (55) 5724-2000 Fax: (55) 5724-2254
	Productos Gerber (baby food)	Moises Acosta ; Trade Import-Export Director	Tel: (442) 211-8300 Fax: (442) 217-9384

* Add (011 52) before dialing.

Source: FAS Mexico City.

Table 5. Mexico: Annual Sales of Largest Food Processors, 2007, By Company (Millions of US\$)

Company	Sales in Millions of US\$	End-Use Channel	Production Location	Procurement
Alfa, S.A. de C.V. (holding): Sigma Alimentos S.A. de C.V.	\$9,974	Retail	Nuevo León (2) (HQ), San Luis Potosí, Chihuahua, Jalisco (2).	Direct

- Red meat, poultry, dairy, prepared & frozen meals			Hidalgo, Mexico City; Total: 8	
Qualtia Alimentos S.A. de C.V. - Red meat, poultry & dairy	N/A	Retail	Nuevo Leon (HQ); Total: 3	Direct
Grupo Bafar S.A. de C.V. - Red meat, poultry & dairy	\$344,166 ^b	Retail	Chihuahua (HQ), Cd. Obregon; Sonora; Total: 2	Direct
Industrias Bachoco. - Tobacco, poultry, red meat & eggs	\$1,665 ^b	Retail, HRI	Total: 400	Direct & Brokers
Grupo Mac Ma. - Prepared gourmet meals, cookies & confection	\$13,703 ^b	Retail	Celaya, Gto.	Direct & Distributors
Grupo Minsa. - Corn flour, tortillas & others	\$205,988	Retail & Processors	Edo de Mexico (HQ), Sinaloa, Coahuila, Jalisco, Veracruz, Chiapas; Total: 6	
Grupo Bimbo S.A. de C.V. - Confection, baked goods & snacks	\$53,567 ^b	Retail	Total: 44	Direct
Grupo La Moderna S.A. de C.V. - Baked goods & wheat flour	\$305,067 ^b	Retail	Toluca, Edo. Mex (HQ)	Direct
Nutrisa. - Health foods & snacks	\$36,786 ^d	Retail	N/A	Direct
Grupo Herdez. - Canned fruit & veg., pasta, sauces, etc.	\$421,493 ^b	Retail, HRI	Ensenada, Yavaros, S.L..P. (2), Celaya, Mexico DF (2), Cuernavaca, Veracruz, Chiapas; Total: 10	Direct
Grupo Azucarero de Mexico (holding company). - Refined sugar & honey	\$229,197 ^e	Retail	Mexico City (HQ), Jalisco, Michoacan, Veracruz (2), Tabasco; Total: 5	
Fomento Economico Mexicano, S.A. de C.V. (FEMSA) (holding): Cerveceria Cuauhtemoc Moctezuma. - Alcoholic drinks	\$9,947 ^b	Retail & Food Service	Nuevo Leon (HQ); Total: 6	Direct & Distributors
Grupo Modelo. Alcoholic drinks	\$5,087 ^b	Retail & Food Service	Zacatecas, Coahuila, Sonora, Sinaloa, Jalisco, Oaxaca, Mexico City (HQ); Total: 7	Direct
Pepsico (holding): Grupo de Embotelladoras Unidas. - Soft drinks	\$536,162 ^b	Retail	Guadalajara, Morelia, Uruapan and Celaya	Direct
Embotelladoras Arca. - Soft drinks	\$1,288 ^b	Retail & Food Service	Nuevo León (2) (HQ); Total:18	Direct
Gruma S.A. de C.V. (holding): GIMSA S.A. de C.V., Molinera de Mexico S.A. de C.V., Gruma Corp. - Corn & wheat flour, tortillas	\$3,277 ^c	Processing Ind. & Retail; Bakery Industry, Retail & HRI	Nuevo Leon (HQ), Total: 17; Total: 9; U.S.: 13	Direct & Distributors
Fomento Economico Mexicano, S.A. de C.V. (FEMSA) (holding): Coca Cola FEMSA. - Soft drinks	\$9,906 ^b	Retail & Food Service	Total: 8	Direct

^b Figures from 3rd quarter of 2007

^c From last quarter of 2007

^d From 3rd quarter of 2008

^e From last quarter of 2006

* Exchange rate: 1 US\$ = 10.93 pesos

Source: Bolsa Mexicana de Valores, February 21, 2009.

C.1 Foreign Direct Investment

The food processing industry is one of the most important recipients of foreign direct investment (FDI):

- The ingredients portion of the food processing sector that received the most FDI were canned preparations of cold meats and sausages, starches and yeasts production, other snacks and corn products, and beer and malt producers.
- FDI grew around 8% from 2005 to 2006, but decreased by -25% (from 2006 to 2007) and by -21% (from 2007 to 2008) [13].
- As for joint ventures, domestic and foreign joint ventures are becoming very popular. One example is a joint venture between "Productos La Huerta" with Swan, in 2005.
- Other past joint ventures include AXA's subsidiary Alimentos (Mexico) with Sara Lee Corp. (1994), and Arancia Corn Products with Corn Products International (1994) [14].

**Table 6. Mexico: Largest Ingredient Industry Recipients of Foreign Direct Investment, by Sectors.
(Millions of US\$)**

Commodity	2005	2006	2007	2008	% Change (2005-2006)	% Change (2006-2007)	% Change (2007-2008)
Canned preparations of cold meats and sausages.	0.4	2.1	8.3	20.6	425.00	295.24	148.19
Starchs and yeasts production.	0	0.9	2.5	12.3	N/A	177.78	392.00
Other snacks and corn products.	2.3	2.6	0.4	2	13.04	-84.62	400.00
Beer and malt industry.	418.6	483.4	591.9	672.1	15.48	22.45	13.55
Total:	421.3	489.0	603.1	707.0	16.07	23.33	17.23
Total FDI to food processing industry:	1,745.80	1,887.30	1,407.10	1,106.90	8.11	-25.44	-21.33

D. Market and Consumption Trends

D.1. Processed Meat Products

These products tend to be popular among middle and upper class consumers. Ham and sausages are used for preparing sandwiches, hot dogs, and omelets. Consumers are generally students and young professionals who usually consume these products after the final stage of preparation – at the corner ‘tienditas’ or mom and pop stores. However, most sales are conducted through the retail sector. Also, the hotel and restaurant industry procures large amounts of these products – especially, premium products.

D.2. Dairy Products

Mexico is a country where dairy products are consumed in significant quantities. Particularly, breakfast meals contain a wide variety of dairy products: milk, different kinds of cheeses, eggs, yoghurt, sour cream (for chilaquiles), and even wheat flour for hot cakes. Since domestic supply is not enough to meet demand, Mexico imports a large quantity of U.S. dairy products. The most demanded dairy ingredients from the United States are whole milk powder, fresh milk and cream, infant food, beverages containing milk, lactose, evaporated milk, and yoghurt.

The Mexican market is price-driven, which means that any slight change in price will very much affect the demand for that product. Hence, other countries like Chile, Uruguay, Argentina, and New Zealand offer products that compete directly with U.S. dairy ingredients [15]. Domestic producers (both formal and informal) also produce products that compete with U.S. imports.

D.3. Chocolate

Mexicans love chocolate – consumption is large but domestic supply cannot meet local demand. Finished chocolate imports from the U.S. are significant, and demand for high quality and specific ingredients is on the rise. More and more, consumers are not only demanding traditional products containing dark, regular or white chocolate, but now consumers are purchasing chocolate products containing yoghurt, cream, and all kinds of nuts.

Additionally, a need for diabetic chocolates is on the rise. There are very few chocolate products for diabetics, and they are expensive. Today, a great number of Mexicans have diabetes.

D.4. Bread

Bread consumption is widespread. Consumption is dominated by domestic producers. There are all kinds of local processors, from the small-sized family business, to large manufacturers like "Grupo Bimbo". Although fresh bread consumption is high, packaged bread consumption has increased during the past few years.

For additional information regarding U.S. exports trends of agricultural products to Mexico, please see the following table.

Table 7. Mexico: U.S. Exports of Agricultural, Fish & Forestry Products, 2005-2008, By Industry (Thousands of US\$)

Industry	2005	2006	2007	2008	% Change (2006-2007)	% Change (2007-2008)
Bulk Agricultural Total	1,083,624	1,204,018	1,500,859	2,258,020	24.65	50.45
Rice	165,434	204,487	242,215	353,089		
Soybeans	854,499	906,318	1,160,791	1,784,388		
Pulses	41,580	68,516	57,299	83,079		
Peanuts	22,111	24,697	40,554	37,464		
Intermediate Agricultural Total	1,681,775	1,847,810	2,440,065	2,523,714	32.05	3.43
Wheat Flour	8,709	10,671	17,888	17,509		
[Soybean Meal]	321,219	376,910	438,872	560,847		
Soybean Oil	86,325	60,283	136,069	290,004		
Vegetable Oils (Excl Soybean Oil)	103,280	90,478	76,370	129,146		
Animal Fats	202,479	197,750	363,483	387,776		
Sugars, Sweeteners, & Beverage Bases	122,408	234,404	334,025	338,135		
Other Intermediate Products	837,355	877,314	1,073,358	800,297		
Consumer-Oriented Agricultural Total	3,545,590	3,996,525	4,397,394	5,320,869	10.03	21.00
Snack Foods (Excl nuts)	226,334	244,090	248,824	350,946		
Breakfast Cereals & Pancake Mix	59,697	63,760	61,720	74,572		
Red Meats, Fresh / Chilled / Frozen	1,339,888	1,634,185	1,584,526	2,021,966		
Red Meats, Prepared / Preserved	97,108	107,324	75,568	59,469		
Poultry Meat	451,599	456,544	489,320	572,188		
Dairy Products	507,454	444,297	858,538	929,361		
Eggs & Products	22,036	35,111	29,310	26,939		
Fresh Fruit	244,678	284,829	333,217	430,674		
Fresh Vegetables	77,995	120,890	136,749	171,520		
Processed Fruit & Vegetables	407,103	431,963	426,130	465,300		
Fruit & Vegetable Juices	23,009	29,884	35,162	54,751		
Tree Nuts	88,689	143,648	118,330	163,183		
TOTAL	6,310,989	7,048,353	8,338,318	10,102,603	18.30	21.16

*Source: U.S. Bureau of the Census Trade Data.

SECTION III. COMPETITION

Table 8. Mexico: Imports of Food Ingredients from the World, 2006-2008, By Commodity (Millions of US\$)

Product Category	Countries	2006	2007	2008	Strengths of Key Supplier Countries	Advantages and Disadvantages of Local Suppliers
Cereals	(1) United States	2,113.79	2,764.99	4,202.27	Such as wheat and corn: enough supply to meet demand in Mexico, competitive price, quality, and proximity. However, transportation costs may increase prices when compared to local prices.	Mexican cereal producers are investing in more product variety and have low costs, but supply is not enough and quality is inadequate.
	(2) Canada	284.76	282.36	282.37		
	(3) Colombia	12.23	0.00	30.27		
Meat	(1) United States	2,124.63	2,317.88	2,709.75	Great quality, smart packaging, and have resources for distribution (i.e. frozen cargos).	Competitive pricing compared to international suppliers, but manufacture capacity is weak. Also, any price change will affect purchases.
	(2) Canada	212.47	241.23	243.69		
	(3) Chile	129.94	93.98	99.23		
Edible seeds for processing	(1) United States	1,043.586	1,321.073	1,952.130	Good capacity to supply grains for distributors in Mexico.	Local supply is rising, but is not able to keep up with demand. For example, imports of soybeans are amongst the most important edible seeds.
	(2) Canada	341.897	451.136	879.202		
	(3) Argentina	6.881	15.111	33.793		
Miscellaneous food ingredients [1]	(1) United States	93.70	104.75	97.77	U.S. products are very attractive to distributors of food preparations like yeasts, baking powder, coffee extract, soy sauce and mustard additives.	Domestic suppliers have the market know-how, but they are becoming less competitive because foreign suppliers have introduced many innovative products.
	(2) Canada	5.90	5.08	3.87		
	(3) Spain	2.80	5.40	3.23		
Fats & oils	(1) United States	425.68	637.51	955.08	High quality control, resources for distribution and healthy trends, such as avoiding trans fats usage. Other suppliers have competitive pricing. Demanded in the retail and HRI sectors.	Low transportation costs. Mexico has a large production of grains, but oil processing from grains is limited. Imports are used to cover lack of supply of raw materials, and grains are processed into oils.
	(2) Costa Rica	63.27	93.79	141.18		
	(3) Honduras	50.50	64.73	107.73		
Dairy, eggs, honey, etc.	(1) United States	564.52	929.50	934.50	Innovative products (like nonfat milk solids, and whey protein concentrates); high quality controls; and, possibility of targeting upper and middle class consumers. U.S. products enjoy lower tariffs due to NAFTA.	Local produce is highly consumed amongst the lowest classes, but their supply capability is constrained and quality is low. Upper and middle classes demand higher quality products. Deficit of local milk production.
	(2) New Zealand	211.91	355.46	282.77		
	(3) Uruguay	36.22	97.64	107.73		
Total U.S.		6,461.82	8,209.77	11,043.35		

Source: World Trade Atlas. Last day of consultation: May 26, 2009.

Table 8 contains the most important food ingredient imports from the world. Demand for U.S. products included in the table has steadily increased. Only "miscellaneous food ingredients" has not increased as precipitously as the rest of the products. Products contained in this category include yeasts, baking powder, soy sauce, tomato ketchup and sauce, mustard, flour, other sauces and condiments, soup, broth and other preparations, and protein concentrates. Competing products from other suppliers like Canada and Latin American have experienced both significant increases and a moderate decrease. This is because many of these products are procured only when there is a supply shortfall from the U.S. or in the case of price advantages.

SECTION IV. BEST PRODUCT PROSPECTS

During 2008, Mexico reduced tariff barriers to zero for all U.S. agricultural products. Although there has been full implementation of the North American Free Trade Agreement (NAFTA), on

March 18, 2009, the Mexican Ministry of Economy (Secretaria de Economia) imposed tariffs on 90 U.S. products as retaliation for the cancellation of the pilot U.S.-Mexico Cross-Border Trucking Demonstration Project. 36 of the 90 products were agricultural or food products [17]. Some processed foods and ingredients were impacted such as: raw pasta; processed & frozen potatoes; canned peas; processed nuts & almonds; canned cherries; other sauce preparations, seasonings, mustard flour, and canned mustard; soy sauce; fruit and vegetable juices; soup, broth & stew preparations; and, juice concentrates enriched with minerals or vitamins. Tariffs for these goods range from 10 to 20 per cent [18].

IV. A. Products Present in the Mexican Market with Good Sales Potential

**Table 9. Mexico: Products with Good Sales Potential, 2003-2007.
By Industry, Monetary Values.***

Product	2007 Imports (000 sales) (A)	% Average Growth (2003-2007) (B)	Import Tariff Rate (C)	Key Constraints over Market Development	Market Attractiveness for U.S.A.
Oil seeds and grains milling	5,520,775	14.59	0%	Especially, for products such as white corn, soy oil, whey, and wheat: - significant rise of local production; - U.S. products tend to be pricier; - additional investment in production capacity. Regarding white corn, - large cultivations; and - sensitive market for imports.	For these products: - High increase in total consumption; - U.S. has no similar competitor; - increased demand of the HRI industry; - Mexicans now prefer soy oil over other cooking oils.
Meat filet and packaging; cold meats & canned meat preparations	2,475,784	13.15	0%	Products that are widely consumed are pork (fresh and frozen), and beef, but are regarded as unhealthy & unsanitary (especially due to the swine flu outbreak).	However: - hams & sausages consumption has increased and are seen as convenience foods; - existing higher disposable income; - competitive prices & quality; - non-NAFTA countries subject to tariffs.
Sugar, chocolates, sweets and similar	593,427	12.28	0%	Chocolates: Mexico has capacity to produce its raw materials. Price from imported products tends to be high.	Chocolates: not enough local infrastructure for processing, thus chocolates from the U.S. are largely demanded.
Bakery	322,514	11.19	0%, only one product with 10%, see (D)	- Artisanal bakery continues to capture a large part of consumption - Preference for local ingredients from local producers. - Domestic suppliers like "La Moderna" continue to expand.	- Very high demands for wheat products, such as pasta, are on the rise.
Dairy products	954,600	10.11	0%	Most purchased U.S. products are skimmed milk, fresh milk and cream, and whey products: - surging strong local investment in production capacity.	-NAFTA tariff rate quotas phased out in 2009, resulting in lowering prices.
Other food industries (E)	654,265	6.79	0%, 10%, 15%, 20%, see (F)	Nuts such as almonds, walnuts and pistachios: - Iranian pistachios are preferred because of its flavor & price; - in general, processed almonds are more expensive. Chile is supplying them at a very competitive prices and have high quality; - Mexico is a price driven market, thus expensive U.S. products are not seen as competitive.	- Growing demand for tree nuts, for bakery and dairy industry; - Mexico does not produce walnuts. The U.S. is the leading supplier; - healthy products are becoming more popular; - U.S. products are perceived as premium quality.
Fruit, vegetable and stew preparations	339,698	3.17	0%, 20%, see (G)	- Local consumers prefer fresh vegetables; - chilled vegetables tend to be more expensive; - Chilean, American and Greek companies do not promote	- Are appealing to women that have little time for cooking; - main purchasers are wholesalers and supermarkets; - HRI industry demand is growing; - in central & southern Mexico,

			imported products; and, - other countries have competitive price and quality;	U.S. canned peaches are preferred over other products; - Chilean peaches have competitive prices & quality; - the bakery industry is demanding moderate quantities; - products such as prepared potatoes, peaches and preserved pineapples and fruit mixes in syrup are highly imported.
Ingredients totals	10,900,833	10.32		
Total Food Industry	N/A	2.14		

(A) In U.S. dollars.

(B) Information was not available to obtain average growth rate from 2002-2003.

(C) Tariffs increased by the Mexican government on March 18, 2009.

(D) Other food industry category include snacks; coffee benefits; concentrates, powder, syrups, and flavor essences for pops; condiments, seasonings; desert powders; yeasts; among others.

(E) Pastas without preparation, other than spaghetti, macaroni, ravioli, etc. (HS# 1902.19.99).

(F) Not all products from this category are applied tariffs. Products from other industries with tariffs are: soy sauce and similar sauces (20%); soup, broth, & stew preparations or ready to be prepared (10%); juice fruit concentrates of one fruit or mixed fruits, enriched with vitamins and minerals (15%); and, food preparations containing solid dairy products of more than 10% of their weight (15%).

(G) Products that are applied a 20% tariff are: prepared, canned, or frozen potatoes; prepared or canned peas; prepared nuts; prepared almonds; prepared cherries; fruit or vegetable juices; juices containing only vegetables and others related.

*Industries identified in the table account for 85% of total industry production.

Source: The World Trade Atlas.

IV. B. Products Not Present in the Mexican Market in Significant Quantities with Good Sales Potential:

- Malt Extracts*
- Spices
- Meal flakes
- Potato flakes
- Cookie dough and baking mix inputs*
- Natural and artificial spices and flavorings*
- Sunflower seeds

IV. C. Products that Have Strong Domestic Demand, but Too Few Local Suppliers:

- Flaxseed (Linseed)
- Whey
- Spices
- Baby food

IV. D. Products Not Present in Mexico due to Significant Trade Barriers:

No significant trade barriers exist for U.S. agricultural exports to Mexico since NAFTA was fully implemented. Products qualifying as "North American" must use the NAFTA Certificate of Origin to receive NAFTA beneficial treatment. This certificate may be issued by the exporter or freight forwarder and, depending on the shipment value, an invoice must be attached. North American products, as defined by the rules of origin, are eligible for preferential tariff treatment - 51% or more NAFTA content by value is required to receive a NAFTA Certificate of Origin.

These tariff benefits fully comply with international trade rules. Considering that NAFTA is a 'Regional Trade Agreement' (RTA) and its members are bound to comply with the World Trade Organization's rules, NAFTA is, nevertheless, exempt from extending trade commitments to other nations (RTAs are granted an exception when applying the Most-Favored-Nation provision (MFN) under Article XXIV of the GATT), making the North American region economies compliant with international trade standards.

SECTION V. POST CONTACT AND FURTHER INFORMATION

If you would like to learn about the services provided by the Agricultural Trade Offices (ATO) in Mexico, please contact us. Our email, telephone and fax numbers are listed below. We are looking forward to working with you to promote exports of U.S. agricultural products to Mexico.

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^[1]Data & Statistics, The World Bank; Central Intelligence Agency - World Factbook.

^[2]CSS 2009.

^[3]Gurria, Angel. "OECD da bienvenida a plan anticrisis de Calderon", El Economista, January 7, 2009.

^[4]Central Intelligence Agency - The World Factbook.

^[5]"Habitantes - zona urbana - 2005 - comparativo internacional", Sociodemografía y género, Instituto Nacional de Estadística y Geografía,

^[6]Sistema de Información Empresarial Mexicano. Last date of consultation: May 29, 2009.

^[7]Table 1 and Table 2, FAS estimates using information from the Mexican Statistics Institute (INEGI), the World Trade Atlas and the Mexican Ministry of Economy.

^[8][Bancomext \(Banco Nacional de Comercio Exterior\)](#).

^[9]See FAS GAIN Report MX5301.

^[10]Source: "An Insight on the Crisis", Presentation by Kenneth Shwedel, Global Economic Downturn Series Webinar – ATO Mexico City, April 15, 2009.

^[11]"Extiende la Comer 'Stand Still'", Reforma Newspaper, May 5, 2009.

^[12]Market Research.com – "Branded Foods in Mexico", Forecasts to 2013. January 31, 2009.

^[13]Calculations made with information from "Reporteador", Dirección General de Inversión Extranjera, Mexican Ministry of Economy, May 28, 2009.

^[14]"Mergers, Acquisitions and Joint Ventures between US-Mexican Firms 1993-1994", Social Science Research Network.

^[15]Sistema de Información Arancelaria Via Internet. Mexican Ministry of Economy.

^[16]Includes coffee extract; yeasts, baking powder; soup; broth and related preparations; soy sauce; tomato ketchup & sauce; mustard flour, meal,

sauce, & condiment; protein concentrates; among others.

^[17] The Economist, March 19, 2009, please see "Mexico Retaliates Against American Congressmen Who Want Closed Borders". Also, Please refer to FAS GAIN Report MX9010 at: www.fas.usda.gov/scriptsw/attacherep/default.asp.

^[18] For specific product tariffs, please refer to pages 50 & 51, at the "Diario Oficial de la Federacion", available on-line at: <http://dof.gob.mx/PDF/180309-MAT.pdf>

^[1] Includes coffee extract; yeasts, baking powder; soup; broth and related preparations; soy sauce; tomato ketchup & sauce; mustard flour, meal, sauce, & condiment; protein concentrates; among others.