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Mexico

Livestock and Products Annual

Multiple Trade Deals Open the Gates to Exports and Competition

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Report Highlights:
More than halfway through 2018, production in the Mexican livestock sector is expected to continue to grow, supported by government programs and low-priced feed. Domestic industry and President-elect Lopez Obrador prioritize self-sufficiency in the sector and strive to build domestic production capacity. Simultaneously, multiple trade deals expand export opportunities and increase competition from imports as new players enter the Mexican market.

Commodities:

Animal Numbers, Cattle
Meat, Beef and Veal
Animal Numbers, Swine
Meat, Swine

Executive Summary

Expansion of Mexico's cattle herd and beef production is expected to continue, supported by government programs and low feed prices. Efforts to improve traceability continue, as well as high levels of integration with the U.S. cattle and beef industry. Swine and pork production is set to expand, with domestic industry investing heavily in vertical integration and infrastructure. In both sectors, expansion of federally-inspected slaughter facilities bolsters growth.

Policy shifts are expected in the livestock sector as a new administration takes office, following a national election on July 1, 2018. The newly-elected Congress took office on September 1, 2018, and the new president Andrés Manuel Lopez Obrador, known as AMLO, will take office on December 1, 2018. Both the majority of congress and the presidency were won by AMLO's leftist coalition, Morena. Of particular note is AMLO's platform to support small scale producers and his proposals that Mexico become self-sufficient in beef and pork, among other agricultural products, within three years.

At the same time, in 2018 Mexico moved towards conclusion on several major trade negotiations. First, in April, Mexico and the European Union reached an agreement in principle in the Mexico-EU FTA modernization process, liberalizing trade in both beef and pork (see details in the policy sections below). Mexico also ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, lowering tariffs on livestock products and expanding their access in Asia. The CPTPP will go into effect once six of the participating countries have ratified the agreement. Finally, Mexico and the United States announced an agreement in principle in the NAFTA renegotiation, which is expected to generally decrease uncertainty in the market but is pending an agreement with Canada.

Other trade related shifts include Mexico placing retaliatory tariffs on U.S. pork (see the pork policy section), and opening a duty-free tariff-rate quota (TRQ) for pork aimed at compensating processors who rely on imported U.S. pork as Mexico imports 40 to 50 percent of the pork it consumes.

The multiple trade deals and policies open the door in Mexico to both exports and competition from imports.

Animal Numbers, Cattle

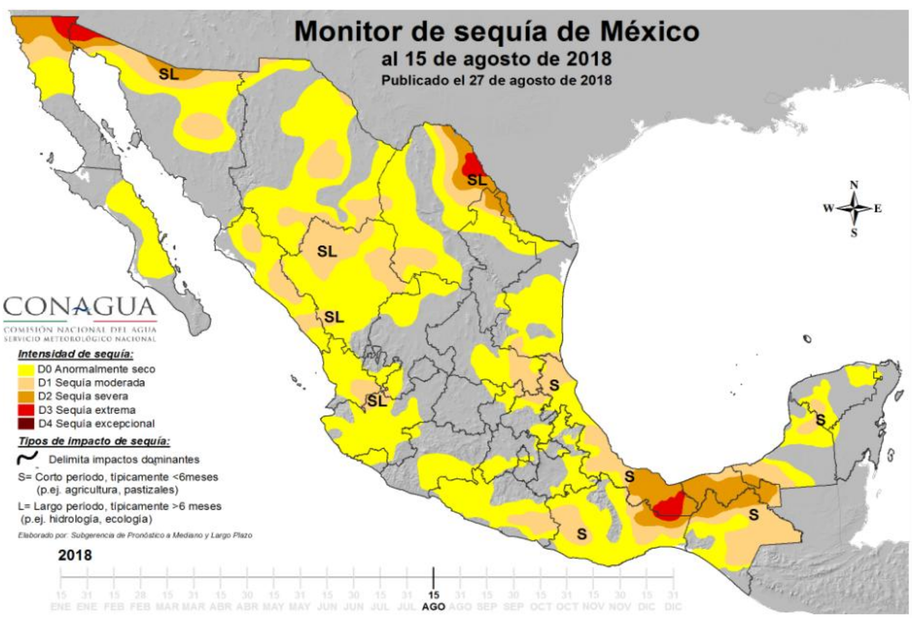
Production

The forecast for calf crop production in 2019 is set at 7.9 million head as herd expansion continues. The forecast for 2018 remains the same, supported by low feed prices and recent efforts to improve genetics. In the short term, producers have extended the finishing phase, resulting in increased weights. Long-term goals in the sector include increasing the national reproductive average and calf crop.

The Government continues to support producers

As previously reported, the Mexican government's *Programa de Fomento Ganadero* (Livestock Promotion Program, known as PROGAN) and *Programa de Mejoramiento Genético* (Genetic Improvement Program) continues to support all livestock producers in 2018.[1] According to the current administration's Secretary General of Livestock, Francisco Gurría of Mexico's Secretary of Agriculture (SAGARPA), the Livestock Promotion Program distributed MXN $797,147,372 (or USD $42 million[2]) among 65,536 livestock producers in 2017. He noted that between SAGARPA programs and other Mexican government support and credit programs, more than a million head of livestock have been added to the national herd in the last five years. SAGARPA also suggested converting MXN $2 billion of PROGAN funds (equivalent to USD $105 million) into a liquid guarantee fund offering credit to the more than 600,000 existing Mexican ranchers.[3]

Slightly dry summer not expected to greatly impact production



Source: Comisión Nacional del Agua (CONAGUA), Monitor de Sequía en México

While the 2018 summer did present patches of abnormally dry conditions as demonstrated by the map above from Mexico's National Commission for Water, conditions are nowhere near the 2012 drought,

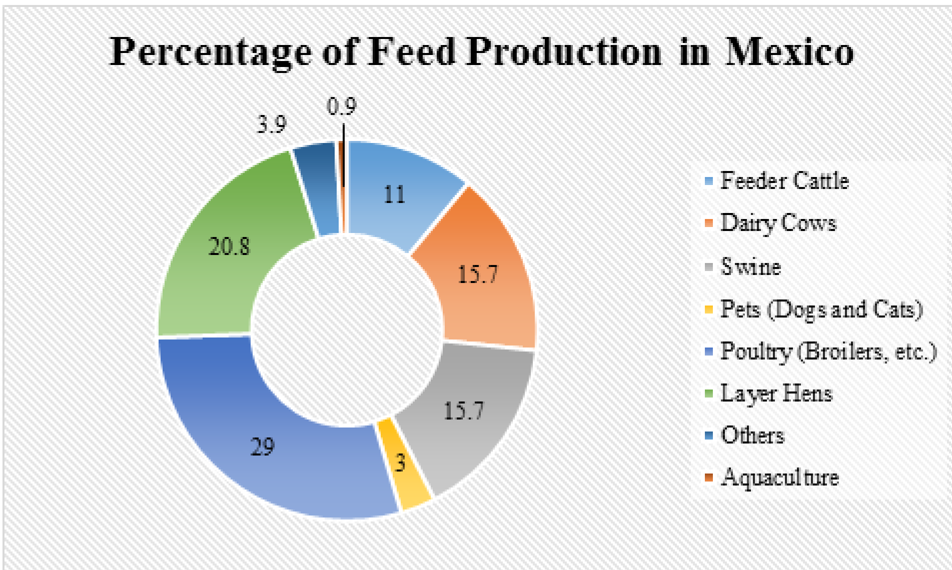
[1] Details on these programs for 2018 can be found at https://www.gob.mx/sagarpa/acciones-y-programas/programa-de-fomento-ganadero-2018

[2] Conversion based on an average exchange rate of MXN $19 to USD $1.

[3] "Planta Gurría 'Convertir' Los 2 Mil MDP De PROGAN En 'Fondo De Garantía Líquida." *Desarrollo Porcícola*, 2018, Jun-Jul. p. 17-18.

and commercial cattle production is not expected to be greatly impacted. Further supporting cattle production are low and stable grain and feed prices. While the Mexican livestock industry employs both pasture and feedlots, industry relies heavily on imported grains[4] for feed such as yellow corn, oilseed meals, sorghum, and other meals and inputs such as distiller's dried grains (Please see MX8010 for more information.). While cattle are raised across various regions of Mexico, the principal feedlots for fattening are in the north.

An estimated 11 percent of animal feed in 2017 was produced for the feeder cattle sector. This percentage is not expected to change as the poultry sector continues to demand the lion's share of feed in Mexico.[5] It is important to note the widespread dual-usage of dairy cows, with the dairy sector representing 16 percent of feed. Dual-usage is particularly common in tropical zones.



Source: El Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición Animal (CONAFAB), 2017 estimates

Renewed emphasis on traceability

While the National System for Livestock Identification (SINIIGA) which evolved into the National Animal Identification System (SINIDA), expanded use of tagging for bovines, country-wide use is still in progress. Traceability became increasingly important as Mexico seeks to diversify livestock exports. Following a 2015 announcement, or official regulation NOM-001-SAG/GAN2015, SAGARPA mandated tagging for bovine species as well as beehives.[6] Implementation was delayed until February 1, 2017; however expanded use continues to be delayed due to complexity, security issues, and logistics.[7] According to the text, tagging is mandatory for all owners or holders, exporters and importers of cattle; including, among others, breeders, feeders, traders, stockyards, slaughter establishments, quarantine stations, and animal health checkpoints. SAGARPA and National Service for Food Health,

[4] The imported grains used in feed typically come from the United States.

[5] Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición Animal (CONAFAB), 2017 estimates.

[6] http://www.dof.gob.mx/nota_detalle.php?codigo=5394324&fecha=29/05/2015

[7] http://dof.gob.mx/nota_detalle.php?codigo=5463274&fecha=01/12/2016

Safety, and Quality (SENASICA) work closely on traceability, including tagging, with the National Confederation of Livestock Organizations (CNOG) on this project, and in 2017 received technical advice from Spain.[8] One example of the tags being used (as per NOM-001-SAG/GAN2015) is below.

	Parte Anterior (Hembra)	Parte Posterior (Macho)
Diseño del Arete tipo Bandera	Bovino. Visual. Hembra. Exterior 	Bovino. Visual. Macho. Exterior 

Trade

Imports still for breeding, significantly less than exports

The forecast for live cattle imports in 2019 is set at 37,000 head, an increase from the revised 2018 estimate. The vast majority of the imported cattle support herd improvement, including both breeding cattle and dairy cows. This trend is expected to continue. The imports for 2018 are revised slightly down to 35,000 head, reflecting the trend of official data from Mexico's National Statistical and Geographical Institute (INEGI) through June, but showing year on year growth.

In the January to June period of this year, 98 percent of imported cattle originated from the United States, continuing the traditional pattern of imports as the United State maintains cost and transport advantages. The smaller than normal imported amount from Canada (2 percent of the January to May period) shows a decline in standard market share. The shipments from Australia and New Zealand in 2015 and 2016 did not continue, presumably due to shipping costs.

Mexico's live cattle exports continue flat with one destination, the United States.

The forecast for live cattle exports is flat in 2019 at 1.2 million head from the revised 2018 figure, as low cost feed and good weather enables ranchers to keep calves longer, in parallel with Mexico's efforts to diversify meat exports (resulting in slaughter in-country). The 2018 estimate is revised down due to January to June 2018 official data showing exports lower than in the same period of 2017. During 2017, 99.98 percent of Mexico's live cattle exports arrived in the United States, with the remainder destined for Central America. Exports also generally peak at the end of each year.

The majority of cattle exported remains calves/steers for further fattening in the United States and slaughter. A breakdown by SAGARPA's Agricultural Statistical Institute (SIAP) in coordination with SENASICA shows that from January to May of 2018, 83 percent of cattle exported to the United States

[8] https://revistatransforma.com/de-cerca/sistema-trazabilidad-ganaderia-mexicana/

were calves, while 17 percent were heifers.[9] Top exporting states in Mexico include Chihuahua, Sonora, Durango, and Tamaulipas. However, the origin of the cattle may be from other states. Exports show seasonality, generally with a bump around March, lower exports during the summer, and then ending the year (November-December) with the highest monthly levels for the year. This consistent pattern is not expected to change.

Policy

New administration will seek to be self-sufficient in beef and pork within three years.

The North-South production gap persists (large commercial production versus small-scale, often backyard production), and the incoming administration seeks to obtain self-sufficiency in the sector as well as support small-scale producers and rural development. Specifically, the plan laid out during the campaign by President-elect Lopez Obrador and the Morena political party seeks for Mexico to be self-sufficient in beef, pork, and poultry within three years.

AMLO named David Monreal Avila as the General Coordinator (Under Secretary) for Livestock under SAGARPA, although he will not take office until after December 1, 2018. Mr. Monreal Avila is affiliated with the Labor party and currently serves in the Mexican Senate representing Zacatecas.

No impact from TRQ

The tariff rate quota (TRQ)[10] for third countries without free trade agreements to send live cattle for fattening (Mexican HS Code: 01022999) to Mexico remains an option. However, no amount has yet to be set for the quota, despite being announced in 2016.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	16490	16490	16584	16584	0	16809
Dairy Cows Beg. Stocks	3350	3350	3400	3400	0	3450
Beef Cows Beg. Stocks	7300	7300	7500	7500	0	7700
Production (Calf Crop)	7485	7485	7700	7700	0	7900
Total Imports	32	32	37	35	0	37
Total Supply	24007	24007	24321	24319	0	24746
Total Exports	1203	1203	1250	1200	0	1200
Cow Slaughter	1320	1320	1350	1350	0	1370
Calf Slaughter	230	230	240	240	0	250
Other Slaughter	4520	4520	4570	4570	0	4620
Total Slaughter	6070	6070	6160	6160	0	6240

[9] https://www.gob.mx/siap/documentos/exportacion-de-ganado-bovino
[10] GAIN report MX6025

Loss	150	150	150	150	0	150
Ending Inventories	16584	16584	16761	16809	0	17156
Total Distribution	24007	24007	24321	24319	0	24746
(1000 HEAD)						

Not Official USDA Data

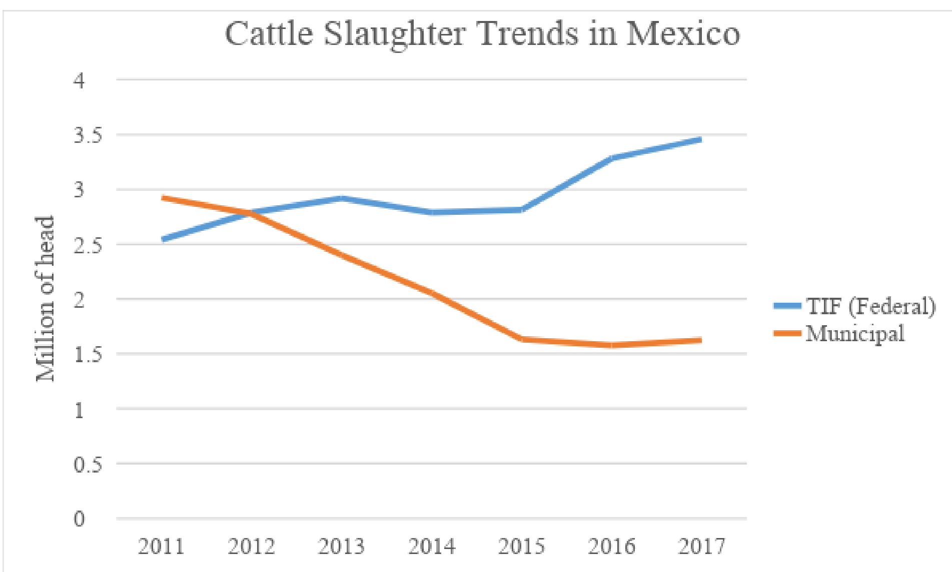
Meat, Beef and Veal

Production

The forecast for 2019 beef production is set at 2 million tons (MT) of beef, continuing an upward trend in production, and supported by expected government programs under the new administration, along with efforts to increase weights and low cost feed. The forecast for 2018 is maintained at 1.96 million MT of beef. As of July 2018, SIAP estimates showed 1.12 million MT of beef produced in the first seven months of the year. Cattle from the south often journey north for fattening and finishing. Top beef producing states include Veracruz, Jalisco, and San Luis Potosi.

TIF slaughter trending up, municipal slaughter trending down

SENASICA continues to expand the Federally Inspected (TIF) Slaughter facility system. Their efforts are supported by high demand from producers and processors who both garner a premium when the livestock is processed through a TIF facility, and the common requirement of use of a TIF facility for export markets. A significant percentage of cattle are slaughtered privately or *in situ*, particularly in the southern states where small scale or household production is common.



Data Source: SENASICA (Note: does not include in situ or private slaughter)

Consumption

The economy favors increased beef consumption

The forecast for 2019 beef consumption is set at 1.89 million MT, up from the 2018 figure. Beef has long been the highest cost animal protein for Mexican consumers, constraining consumption by the lower and middle-income populations. For example, at wholesale distribution centers in Mexico City during August, carcasses sold for MXN $71-76 per kg (approximately USD $3.7 - $4 per kg), with cuts garnering a further premium.[11] This is generally twice the cost of poultry. However, economic stability in Mexico following the Presidential election on July 1, 2018, and a more favorable exchange rate are expected to support domestic consumption. Efforts by industry to increase beef consumption are long-term. The kind of cuts consumed varies by income sector, with popular lower priced cuts remaining "*bistec*" and "*milenesa*".

While imported beef only constitutes 10 to 12 percent of consumed beef in Mexico, it plays an important role at high-end restaurants where quality and labeling (for example, USDA Prime and Select) attracts customers, but also in other food preparation including traditional Mexican cuts. While a beef grading system is currently in development in Mexico, a few states have managed to differentiate their beef as high quality, such as Sonora.

Trade

Imports set to grow

The forecast for 2019 is set at 220,000 MT, continuing a multi-year upward climb. The forecast for 2018 is adjusted upwards to 210,000 MT as year to date imports (January to June 2018) are up 7 percent over 2017. Sustained demand throughout the rest of 2018 is expected to continue, particularly from the middle to high-income population as well as for further processing, and supported by the relative economic stability following the presidential election.

U.S. beef market share remains strong

The volume of imported product from the United States continues to increase and market share remains steady. In 2017, U.S. beef held 79 percent of the market, followed at a distance by Canada (10 percent) and Nicaragua (8 percent). U.S. beef does not face the same challenges as U.S. pork currently and worthy of note is the high level of integration of the Mexican and U.S. cattle/beef sector, with animals and product crossing the border several times as they are fattened and the meat processed.

As noted in previous reports, Nicaragua made recent inroads for beef in Mexico, sending principally fresh/chilled boneless (HS code: 020130), with smaller amounts of bone in product (HS Code: 020120) and prepared or preserved meat (HS code: 160250).

Export expansion in Asia

The forecast for 2019 exports of beef is set at 330,000 MT, similarly continuing Mexico's year on year growth pattern. The 2018 forecast is maintained at 305,000 MT. This growth is supported by both

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[11] Source: http://www.secofi-sniim.gob.mx/nuevo/ (During August, the MXN Peso to the USD exchange rate averaged slightly below MXN $19 to USD $1.)

production increases, TIF slaughter facility expansion, as well as Mexico's strong diversification efforts. In the first part of 2018 (January through June), the United States continued as the primary export destination with 87 percent of market share, but expansion in Asia continued with notable growth, particularly to Japan (6 percent), Hong Kong (4 percent), and South Korea (2 percent). Other markets included Canada, Chile, and Panama. As previously reported, the ability to box beef aided export expansion in recent years.

New markets hold promise

China, while holding less than one percent of the market share during the January to May period in 2018, saw rapid growth. Mexico continues to hold high hopes for Halal exports as well, making several visits to the Middle East to explore expansion of Mexican exports.[12] Specifically, Mexico's Secretary of Agriculture (SAGARPA) is working closely with the Emirates International Accreditation Center on halal certification and supervision.[13] The number of halal certified agri-food plants as well as meat and poultry slaughterhouses (and processing facilities) has grown rapidly in Mexico (61 certified plants as of July 2018), with the hopes to grow exports for the niche market. Finally, efforts continue to open the Russian market.

Policy

NAFTA progress

A preliminary agreement between the United States and Mexico in the North American Free Trade Agreement modernization was announced on August 27, 2018, which would maintain reciprocal duty-free market access for agricultural goods. Following this date, discussions will continue with Canada. While the preliminary agreement is not the final step, it does provide a level of stability to the market.[14]

Efforts to diversify red meat are taken up again

Throughout 2018, Mexico and Brazil have re-engaged in dialogue to open Mexico to Brazilian red meat. Only one state in Brazil holds a World Animal Health Organization (OIE) ruling of foot and mouth disease free without vaccine, but due to uncertainty in NAFTA negotiations, Mexico re-emphasized dialogue with Brazil during the first half of 2018.

The beef TRQ has little impact on trade

Mexico's Tariff Rate Quota (TRQ) for 200,000 tons of beef to enter Mexico duty free from countries without a Free Trade Agreement entered into force in March of 2017 and was recently extended through 2019 (see MX8000). However, the TRQ is far from filled and little impact on trade is expected in the short to medium term. For example, the TRQ only reached a 1 percent fill rate in 2017 (March-December).

[12] https://www.globalmeatnews.com/Article/2018/07/18/Halal-meat-demand-to-boost-Mexican-exports
[13] https://www.gob.mx/sagarpa%7Cchiapas/articulos/crece-numero-de-plantas-con-certificacion-halal-para-exportacion-a-mercados-musulmanes-165932
[14] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/strengthening-nafta-agriculture

Mexico looks east and west for trade opportunities

On April 21, 2018, Mexico and the European Union (EU) announced an agreement in principle in the renegotiation of their free trade agreement. The agreement greatly expands market access for agricultural products. Overall, the Mexican government and press view the agreement favorably, noting increased agricultural market access, but certain sectors, such as the livestock industry, have expressed concerns regarding competition. Under the "Agreement in Principle," Mexico gained partial liberalization for its beef through TRQs, including 10,000 MT of beef and 10,000 MT of beef offals (both with a 7.5% tariff, phased-in over five years).

Outside of trade liberalization, the agreement in principle includes specifics on sanitary and phytosanitary matters, including laying out timelines for risk assessments (within one year). The agreement contains a foreseen agreement for Mexico to "pre-list" EU meat establishments based on a systems approval (similar to the system used by the United States and Mexico). The European Union and Mexico also agreed to regionalization for pest or disease outbreaks. Separately, a chapter on animal welfare and antimicrobial resistance was developed.

Further expansion in Asia with the CPTPP

Eleven countries[15], including Mexico, signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on March 8, 2018. Following signature, the agreement must be ratified by six countries to go into effect. Three countries have finalized ratification: first, Mexico ratified the agreement in April 2018, and Japan and Singapore subsequently ratified the treaty. Under the CPTPP, many of the countries have agreed to immediate or phased-in tariff relief for agricultural products. Mexico is looking at new opportunities for agricultural products, including for both beef and pork, in these markets.[16] Conversely, Mexico agreed to reduce their tariffs to zero over the next 10 years according to the below table in order to liberalize their imports of beef products.[17]

Table 1: Mexico's Phase-Out of Beef Tariffs under the CPTPP

Tariff Line (Mexican HS Code)	Description	Base Rate (%)	Year 1 (%)	Year 2 (%)	Year 3 (%)	Year 4 (%)	Year 5 (%)	Year 6 (%)	Year 7 (%)	Year 8 (%)	Year 9 (%)	Year 10 - Year 16 (and beyond) (%)
0201.10.01	Carcass and half-carcasses	20	18	16	14	12	10	8	6	4	2	0
0201.20.99	Other cuts w/ bone in	20	18	16	14	12	10	8	6	4	2	0
0201.30.01	Boneless	20	18	16	14	12	10	8	6	4	2	0

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[15] Mexico, Australia, Brunei, Canada, Chile, Japan, Malaysia, New Zealand, Peru, Singapore, and Vietnam. Mexico already has FTAs or economic agreements with several of the parties (ex: Canada, Chile, Peru, and Japan).

[16] https://www.efe.com/efe/america/economia/senado-de-mexico-ratifica-el-tratado-asociacion-transpacifico/20000011-3595503

[17] CPTPP text sourced from: https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text/

0202.10.01	Carcass and half-carcasses	25	22.5	20	17.5	15	12.5	10	7.5	5	2.5	0
0202.20.99	Other cuts w/bone in	25	22.5	20	17.5	15	12.5	10	7.5	5	2.5	0
0202.30.01	Boneless	25	22.5	20	17.5	15	12.5	10	7.5	5	2.5	0
0210.20.01	Meat of bovines animals	10	0	0	0	0	0	0	0	0	0	0
1602.50.01	Guts or lips boiled, hermetically packed	20	0	0	0	0	0	0	0	0	0	0
1602.50.99	Other, including preparations of blood of any animal	20	0	0	0	0	0	0	0	0	0	0

All quiet on the beef grading front

Following the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food's (SAGARPA's) publication in Mexico's Federal Register (Diario Oficial de la Federación) last fall of a draft regulation to establish a domestic beef grading system (similar to the U.S. system), relative quiet ensued (see MX7984).

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	6070	6070	6160	6160	0	6240
Beginning Stocks	0	0	0	0	0	0
Production	1925	1925	1960	1960	0	2000
Total Imports	196	196	205	210	0	220
Total Supply	2121	2121	2165	2170	0	2220
Total Exports	280	280	305	305	0	330
Human Dom. Consumption	1841	1841	1860	1865	0	1890
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1841	1841	1860	1865	0	1890
Ending Stocks	0	0	0	0	0	0
Total Distribution	2121	2121	2165	2170	0	2220
(1000 HEAD) ,(1000 MT CWE)						

Not Official USDA Data

Animal Numbers, Swine

Production

Rockstar of growth in the livestock sector

The pig crop production forecast for 2019 is set at 18.95 million head with a year on year increase. As in previous years, the pork sector has seen rapid expansion and vertical integration, with commercial companies investing heavily. Production continues to be supported by domestic demand, improved genetics, and biosecurity measures. Specifically, private sector views the swine and pork industry as prime targets for expansion due to high levels of meat imports to meet domestic demand. Production is also bolstered by export expectations, both with expanding Asian markets and disease recognitions such as the January 2018 recognition by the United States of Mexico as free of Classical Swine Fever (see Gain MX8011).

Commercial production investment and vertical integration

While the cattle and beef industry is integrated across states, private sector entities, and with the United States, the swine and pork industry continues rapid vertical integration and infrastructure investment by company. As previously reported, the vertical integration includes all stages of production from genetics and feed processing through slaughter, use of on-farm renewable energy sources, meat distribution, and retail (including brick and mortar stores). Mexican industry estimates that 20 percent of production in Mexico originates from small producers, while 80 percent of domestic production originates from large organized producers.

For example, Grupo Kuo, one of the largest vertically integrated pork businesses in Mexico with production focused in the Yucatan peninsula, grew exponentially in the last five to ten years, and is supporting further expansion by 2025 with USD $350 million dollars. Their subsidiary, Keken, which processes pork meat, receives 30 percent of its income from exports to Japan and South Korea.[18]

Grain prices support production

The majority of commercial producers rely on feed, and as such weather has a minimal impact on swine production. According to industry almost 100 percent of the feed used in swine production originates from imported U.S. grains, which are currently at low prices. Swine accounted for 16 percent of feed production in Mexico in 2017.[19] SIAP places the ideal weight for slaughter at an average of 124 kilograms and around 6 months of life.

PED, a low-lying concern

Porcine Epidemiological Diarrhea (PED) remains a low-lying concern in the pork industry (particularly among Mexico’s central states). However, in the past three years it has shown negligible impact on

[18] “Aspira Grupo KUO Captar el 15 Por Ciento del Mercado en Siete Años; Invirtió 350 Millones de Dólares.” *Desarrollo Porcícola*, 2018, Jun-Jul. p. 36.
[19] Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutrición Animal (CONAFAB), 2017 estimates.

overall pork production. As in prior years, the Yucatan peninsula remains a bastion of biosecurity, thereby encouraging swine production.

The Danish connection

In 2018, Mexican authorities (SAGARPA) signed a collaboration agreement with Denmark to collaborate in the pork sector. The Danes reportedly consider Mexico a "strategic country," to sell their technology, services, and investments. Mexican pork organization (OPORPA) highlighted the opportunity to learn from the Danish production model (with a focus on small producers), and for Mexico to further integrate production and supply chains in the sector.[20] This bilateral agreement followed the announcement of the agreement in principal on the Mexico-EU FTA (see the pork policy section).

Trade

Normalcy continues in swine trade

The swine import forecast for 2019 is set at 42,000 head, up from the 2018 estimate. 2017 was a strong import year, and in 2018, year to date imports (January through June) show a 30 percent decrease. That decrease principally reflects a decrease in imports from the United States but is in keeping with the cyclical nature of genetics imports in recent years. Demand continues to be driven by a desire to improve genetics and is support by the relevant government programs such as the Program for Genetic Improvement. During the period January to June in 2018, Canada surpassed the United States (principally due to dip in imports from the United States compared with 2017), and held 51 percent of the market. The United States held 49 percent.

Negligible Exports

The forecast for 2019 live swine exports is forecast as negligible and the estimate for 2018 is set as negligible as well, keeping with historical trends. Exports to the United States in 2017 remain a one-off event. Data for 2017 was adjusted based on official data.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	10697	10229	11075	10410	0	10547
Sow Beginning Stocks	1180	1180	1190	1190	0	1200
Production (Pig Crop)	19400	18100	19800	18500	0	18950
Total Imports	37	42	40	40	0	42
Total Supply	30134	28839	30915	28950	0	29539
Total Exports	8	7	8	0	0	0

[20] Mejiaborja Rey, Leonel. "Editorial." *Desarrollo Porcícola*, 2018, Jun-Jul. p. 7.

Sow Slaughter	15	15	15	15	0	15
Other Slaughter	18295	17200	18785	17585	0	18085
Total Slaughter	18310	17215	18800	17600	0	18100
Loss	741	739	807	803	0	827
Ending Inventories	11075	10410	11300	10547	0	10612
Total Distribution	30134	28371	30915	28950	0	29539
(1000 HEAD)						

Not official USDA Data

Meat, Swine

Production

The forecast for 2019 pork production is set at 1.36 million tons, continuing the upward trend from the past several years. As noted in the swine section above, production is supported by sector expansion and vertical integration, low cost feed, domestic demand, and foreign opportunity. Finally, as previously reported, Mexico seeks to expand infrastructure for slaughter and processing, particularly TIF facilities, and to focus resources in southern Mexico where small and medium scale production dominates. As in previous years, the state of Jalisco is expected to lead production (23.4 percent in 2017), followed by Sonora, Puebla, and the Yucatan.

The new administration's desire for self-sufficiency

As noted in the beef policy section the incoming administration of AMLO has stated goals of becoming self-sufficient in many commodities, including pork, within three years. Currently, 40 to 50 percent of domestic consumption of pork is supported by imports.

Consumption

Pork consumption flat in 2018, to be revived in 2019

The forecast pork consumption for 2019 is 2.37 million MT, up from a revised estimate for 2018. The 2018 figure has been revised down, but still showing a year on year increase. Consumption is supported by increased domestic production and trade, despite uncertainty in the pork market impacting prices and availability, particularly following Mexico's retaliatory tariffs on U.S. pork (see the policy section). However, with an agreement in principle on NAFTA between the United States and Mexico, the market is expected to calm, and by 2019 to continue with business as usual. At wholesale distribution centers in Mexico City during August, swine carcasses sold for MXN $45 to $56 per kg (or USD $2.4 to $2.9 per kg).[21] As previously reported, pork is a staple meat in many traditional dishes (such as *tacos al pastor*) but also serves as an input in processed meat products.

Trade

Summer uncertainty due to retaliatory tariffs

The import forecast of pork for 2019 is set at 1.2 million MT, up from the revised 2018 estimate of 1.15 million MT. In the January to June period of 2018, import market shares held their traditional values, with the United States comprising 89 percent and Canada 11 percent. Volume was also still on track to exceed the 2017 figures. However, although Mexico's official data for July is not yet available, U.S. export data shows a slowdown in terms of value following Mexico's imposition of retaliatory tariffs on many U.S. pork products (see policy section). The length of time that Mexico imposes the retaliatory

[21] Source: http://www.secofi-sniim.gob.mx/nuevo/ (During August, the MXN Peso to the USD exchange rate averaged slightly below MXN$19 to USD $1.)

tariffs will determine how market shares are impacted, as other players explore the market. As previously reported, much of the imported pork meat goes into further processing for ham, deli meat, and sausages, among other products.

Europe gets their foot in the door

According to SENASICA, aside from the United States, Mexico has sanitary agreements in place with 10 countries to import pork including Canada, Denmark, Spain, France, Germany, Chile, Italy, Belgium, Australia, and New Zealand.[22] Due to the Mexico-EU FTA agreement in principle, along with complications in pork trade with the United States due to retaliatory tariffs (see the policy section), Mexico focused on the trade relationship for pork with Europe in 2018. In particular, imports from Spain, which currently holds the third largest market share (albeit less than 1 percent of imports) made headlines in July (frozen pork bellies destined for further processing into bacon).[23]

Export destinations continued to be ruled by Asia

Pork exports for 2019 are forecast at 190,000 MT, reflecting continued growth as production continues to grow, Mexico seeks to expand markets in Asia, and Mexico exploits its status as free of Classical Swine Fever. The 2018 figure is maintained at 180,000 MT based on official data for the January to June period. It is not expected that exported product will be diverted for domestic consumption due to the retaliatory tariffs on imports, as the product categories are different, and exports receive a high premium. For example, Japan maintains its place as the number one export market (75 percent in 2017) importing highly specialized cuts or products such as shish kabobs and patties, followed by South Korea (11 percent) and the United States (10 percent).

China, the rising star

While only representing 1 percent of exports in 2017, Mexico expects to rapidly expand their market in China. Between January and May of 2018, exports to China were more than four times the volume as the same period during 2017. In June of 2018, Mexico signed a Memorandum of Cooperation on the processing and sanitary requirements for exporting pork by-products, such as bone, skin, frozen cartilage, fat and lard, feed, frozen cuts, and frozen tails.[24]

Policy

A resolution on NAFTA?

As discussed in previous sections the announcement of an agreement in principle between the United States and Mexico on NAFTA (pending Canada) in August 2018 is expected to stabilize the market in general, but final resolution remains pending. The industry continues to watch progress closely.

[22] https://www.gob.mx/senasica/articulos/mexico-asegura-abasto-de-carne-de-cerdo-con-mercado-europeo?idiom=es
[23] https://www.gob.mx/senasica/prensa/ingresa-carne-de-cerdo-espanola-para-abastecer-a-la-industria-mexicana-166681
[24] https://www.gob.mx/senasica/es/articulos/aumentan-exportaciones-mexicanas-a-china?idiom=es

Pork to the east

Under the Mexico-EU FTA agreement in principle, pork will be fully liberalized with a few exceptions. Mexico gained full liberalization for pork except for a TRQ on frozen ham (10,000 tons). It is unclear if the TRQ will still include a duty. However, the private sector expressed concerns about challenges in developing the needed sanitary agreements.

The European Union also gained full liberalization, aside from a TRQ for pork loins (10,000 tons). The TRQs obtained by the European Union are listed as duty-free in the agreement in principle. The private sector has expressed concerns about competition from European countries such as Spain. (See the policy section under beef for further details on the agreement in principle outside of TRQs.)

Pork to the west

Similar to beef, Mexico expects to receive benefits for pork exports under the CPTPP. Below is a table of the tariff reductions Mexico agreed to under the treaty, which will all be implemented immediately after ratification.[25]

Table 2: Mexico's Pork Tariff Reductions Under CPTPP[26]

Tariff Line	Description	Base Rate (%)	Year 1 - Year 16 (and subsequent years) (%)
0203.11.01	Carcasses and half-carcasses	20	0
0203.12.01	Hams, shoulders and cuts thereof, with bone in	20	0
0203.19.99	Other	20	0
0203.21.01	Carcasses and half-carcasses	20	0
0203.22.01	Hams, shoulders and cuts thereof, with bone in	20	0
0203.29.99	Other	20	0
0210.11.01	Hams, shoulders and cuts thereof, with bone in	10	0
0210.12.01	Bellies, (streaky) and cuts thereof	10	0
0210.19.99	Other	10	0
1602.41.01	Hams and cuts thereof	20	0
1602.42.01	Shoulders and cuts thereof	20	0
1602.49.99	Other	20	0

Mexican retaliatory tariffs phased in for pork

[25] Swine skins will also see reductions in tariffs if not already duty-free.

[26] CPTPP text sourced from: https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-concluded-but-not-in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership-text/

As part of Mexico's response to U.S. Section 232, tariffs were placed on a number of U.S. products, from U.S. steel and aluminum to a number of U.S. agricultural goods (See GAIN MX8028), affecting $2.6 billion of U.S. agricultural exports to Mexico, including U.S. pork.

From June 5 through July 4, 2018, pork under Mexican HS codes of 02031201, 02031999, 02032201 and 02032999, faced a 10 percent tariff rate, which changed to 20 percent on July 5, 2018. These codes refer to pork "legs, shoulders, and their pieces, with bone," as well as "other," and are generally fresh or chilled. The higher rate implemented on July 5, 2018, is equivalent to Mexico's Most Favored Nation rates. These four products are the same codes listed under the duty-free tariff rate quota Mexico established on June 5, 2018, for 350,000 metric tons (MT) of pork. Other pork products (Mexican HS codes: 16010002, 16024101, 16024201) faced an immediate tariff of 15 percent, 20 percent, and 20 percent, respectively on June 5, 2018. The rates for these last four products have not changed since June 5, 2018.

These tariffs contributed to uncertainty in the pork market in North America particularly from June and beyond for U.S. pork to Mexico.

A TRQ to counteract the tariffs

To counter-act the expected market impact of the retaliatory tariffs, Mexico put in place a duty-free tariff rate quota for 350,000 MT of pork (Mexican HS codes: 02031201, 02031999, 02032201, 02032999) until December 31, 2018. The quota is principally for established Mexican processors who import pork. The Government of Mexico (GOM) publishes the allocation of the quota approximately every two weeks. As of August 20, 2018, 90 percent of the quota had been allocated (or 313,989 MT), with less than one percent (826 MT) utilized.[27] As Canada and Chile already have FTAs in place, the focus for use of the TRQ has been on the European Union.

Production, Supply and Demand Data Statistics:

Meat, Swine	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	18310	17215	18800	17600	0	18100
Beginning Stocks	0	0	0	0	0	0
Production	1267	1267	1305	1310	0	1360
Total Imports	1083	1083	1200	1150	0	1200
Total Supply	2350	2350	2505	2460	0	2560
Total Exports	170	170	180	180	0	190
Human Dom. Consumption	2180	2180	2325	2280	0	2370
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2180	2180	2325	2280	0	2370
Ending Stocks	0	0	0	0	0	0
Total Distribution	2350	2350	2505	2460	0	2560

27 https://www.snice.gob.mx/cs/avi/snice/cuposinfosensibles.html

(1000 HEAD), (1000 MT CWE)

Not official USDA data

Author Defined:

FAS/Mexico Web Site:
We are available at www.fas.usda.gov/regions/mexico or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

Useful Mexican Web Sites:
Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. 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 Submitted by FAS Mexico:

Report Number	Title of Report
MX8034	The Phasing in of Mexican Retaliatory Tariffs
MX8028	Mexico Announces Retaliatory Tariffs Mexico
MX8011	Mexico: Livestock and Products Semi-Annual
MX8000	Mexico Modifies TRQs for Five Agricultural Products