USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

Required Report - public distribution

Date: 3/9/2018
GAIN Report Number: MX8011

Mexico

Livestock and Products Semi-annual

New Opportunities in the Mexican Livestock Sector

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Report Highlights:
From Halal certification for beef to recognition by the United States as free of Classical Swine Fever, Mexico's livestock industry enters 2018 with continued growth and new opportunities. Production is expected to increase across the board, and high integration between the United States and Mexico persists in both the beef and cattle industries. The livestock industry remains closely tuned in to the multiple trade negotiations Mexico currently faces, from the Mexico-European Union free trade agreement to NAFTA.

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

Animal Numbers, Cattle

Production

The calf crop production is raised to 7.7 million head as herd expansion is expected, alongside efforts to improve genetics and low, stable feed grain prices. As previously reported, the Mexican government's *Programa de Fomento Ganadero* (Livestock Promotion Program) and *Programa de Mejoramiento Genético* (Genetic Improvement Program) is expected to continue during 2018.[1]

Mexico seeks to improve the national reproductive average and calf crop

Aided by various methods from improved herd management and genetics, Mexico seeks to increase the national reproductive average and calf crop. The continued and significant difference between production in the North versus South (generally large commercial production versus small-scale for domestic consumption) makes a national standard difficult to achieve.

Weight watching

Low and stable grain prices allow Mexican feedlot producers to expand the finishing phase up to 5-6 months, and sources report that this is expected to be a common practice in 2018. As a result, weights may increase in commercial production, and eventually result in higher beef production. There is interest, however, to avoid weights that are excessive, as the sector is concerned that heavier carcasses will touch the floor in cold storage when hung on rails. The feed usage of the feeder cattle sector, estimated at 11 percent of the feed produced in Mexico, is not expected to change given that the poultry sector will continue to dominate domestic feed usage.[2]

Traceability efforts continue

As previously reported, the National System for Individual Livestock Identification (SINIIGA, by its Spanish acronym) program has matured and expanded, but is constrained by security concerns in some states. In general the tags used are plastic with a barcode. Un-tagged cows are principally destined for the domestic market.

Trade

[1] Details on these programs can be found in at https://www.gob.mx/sagarpa/acciones-y-programas/programa-de-fomento-ganadero-2017.
[2] Asociación Mexicana de Productores de Alimentos (AMEPA), 2015.

Genetic improvement through imports

As in the recent past, Mexico will continue to demand live cattle imports principally for herd improvement (including both breeding cattle and dairy cows). The imports for 2018 are revised slightly up to 37,000 head. The 2017 import figure was raised to reflect official data from Mexico's National Statistical and Geographical Institute (INEGI).

A return to historical percentages

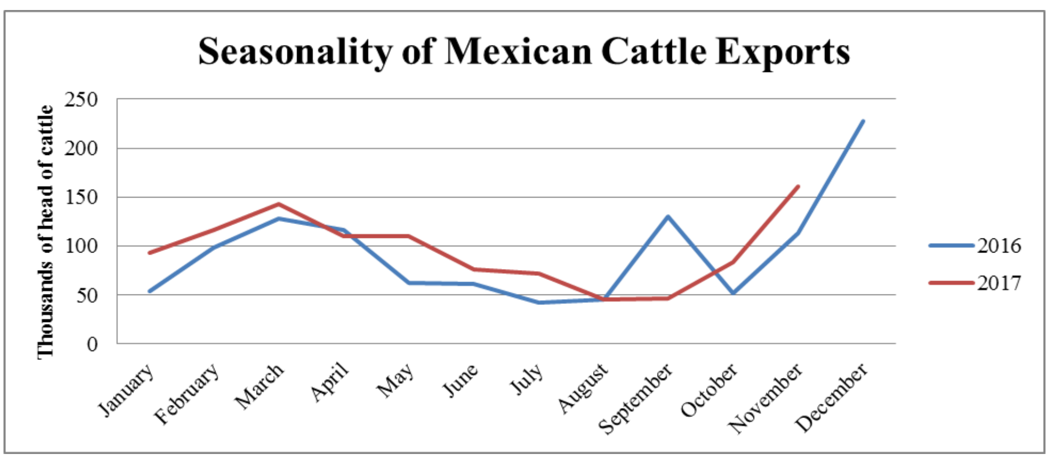
In 2017, official sources indicate that 97 percent of imported cattle in Mexico originated from the United States, with small amounts from Canada (2.6 percent) and Belize (0.4 percent). This is a return to historical percentages following shipments from New Zealand in 2015 and Australia in 2016. No significant imports took place from either country in 2017.

Principal points of crossing

As of October 2017, all of the U.S. and Canadian cattle crossed into Mexico over the land borders of Ciudad Juarez, Nuevo Laredo, Nogales, and Mexicali.

Mexican live cattle exports to the United States rebound to historical levels

The demand for steers is expected to be maintained in 2018. Thus, the forecast is revised up to 1.25 million head of exported cattle in 2018. As previously reported, almost all live cattle exports sent to the United States are for slaughter (180-200 kilogram calves).



Source: INEGI through Global Trade Atlas using HS Code 0102

No change in the symbiotic relationship seen

Despite concerns over NAFTA negotiations, Mexican and U.S. livestock supply chains are expected to continue a symbiotic relationship.[3] As previously reported, a cow (or its parts) could cross the border up

[3] Affirmed in this article: https://www.ganaderia.com/destacado/Rusia-seria-nuevo-destino-para-exportar-carne-de-res-mexicana

to four times from genetics (to Mexico) to slaughter cattle (to the United States), to meat and hides (to Mexico), to leather/car seats (to the United States).

Policy

Even though the tariff rate quota (TRQ) for countries with which Mexico does not have a free trade agreement is still in place (see GAIN report MX6025), significant imports from countries besides the United States and Canada are not expected in 2018. The ongoing NAFTA renegotiation, however, has prompted some agricultural sectors in Mexico to seek diversification, and sourcing cattle from alternative countries may take place if the economics justify purchases. That said, the cost and transport advantages of importing cattle from North American countries is expected to continue, and likely will offset diversification attempts.

Production, Supply and Demand Data Statistics:

Animal Numbers, Cattle	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	16615	16615	16490	16490	16585	16584
Dairy Cows Beg. Stocks	3275	3275	3350	3350	3400	3400
Beef Cows Beg. Stocks	6800	6800	7300	7300	7500	7500
Production (Calf Crop)	7100	7100	7425	7485	7580	7700
Total Imports	31	31	31	32	35	37
Total Supply	23746	23746	23946	24007	24200	24321
Total Exports	1130	1130	1200	1203	1225	1250
Cow Slaughter	1300	1300	1300	1320	1350	1350
Calf Slaughter	220	220	230	230	240	240
Other Slaughter	4435	4435	4480	4520	4520	4570
Total Slaughter	5955	5955	6010	6070	6110	6160
Loss	171	171	151	150	150	150
Ending Inventories	16490	16490	16585	16584	16715	16761
Total Distribution	23746	23746	23946	24007	24200	24321
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Meat, Beef and Veal

Production

A weather impact?

The forecast for 2018 beef production is kept unchanged at 1.96 million tons of beef. An extended finishing phase of cattle in feedlots will fuel beef production. Moderate drought conditions along with high temperatures are commonplace in the north of Mexico, but if worsened, could encourage farmers to shorten the finishing phase. However, low and stable feed prices can mitigate weather impact as well.

TIF Expansion

As reported over the years, the National Service for Food Health, Safety, and Quality (SENASICA), has sought to expand the TIF (Federally inspected) slaughter and processing facilities which are generally eligible to export. According to the National Association of TIF Establishments (ANETIF), in 2016, 60 percent of cattle slaughtered in Mexico were slaughtered at a TIF Facility, and the highest number of TIF establishments are located in Nuevo Leon, followed by the State of Mexico, Mexico City, and Jalisco. The Service of Food and Fish Information (SIAP), estimated in the same year (2016), 41 percent of cattle were slaughtered in a TIF facility. Each year a larger percentage of the beef production in Mexico is processed through one of these federally inspected facilities. In 2018, this expansion is expected to continue.

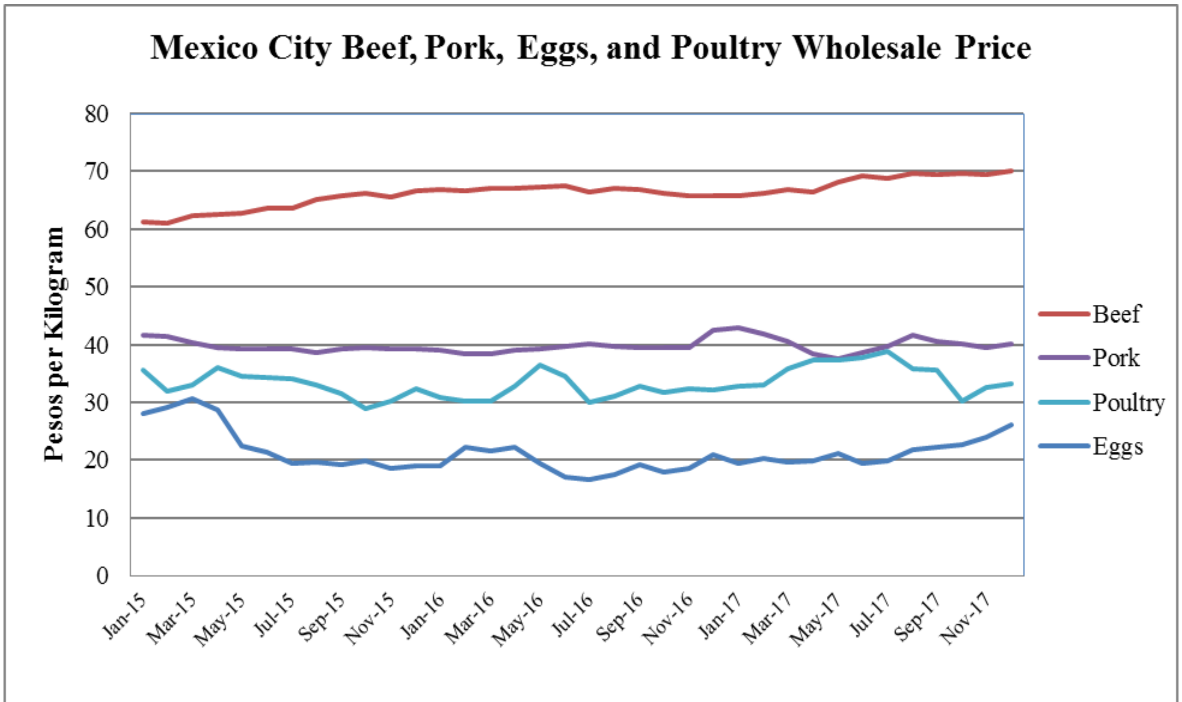
A journey north

In 2017, official data from SIAP shows that the major producing beef states are Veracruz and Jalisco, followed by Chiapas and Durango. According to industry, southern and central states in Mexico – Veracruz, Tabasco and Chiapas – lead calf production, while Jalisco and Sinaloa in Northern Mexico lead the development, fattening, and finishing of cattle intended for beef production.

Consumption

No surprises, the price of beef constrains consumption

For 2018 the consumption forecast is adjusted to 1.86 million tons, a slight increase from the revised 2017 figure. As in recent years, beef consumption competes with poultry and pork, with poultry as the lowest priced protein and the popular choice, particularly among the middle and lower-income segments of the population. The sector, however, is optimistic that beef consumption will grow.



Source: Secretaria de Economia, National System of Information and Market Integration (SNIIM).[4] *Based on carcass weight.*

A positive outlook

Currently the per capita consumption is set between 14 - 15 kilograms per capita, however recent declarations in the media hope to see average consumption reach 17 kilograms in the medium to long-term. As previously reported, the middle and upper-income population consumes select fine cuts, while the medium and lower-income population will consume lower priced cuts such as "*bistec*" (thin cut from the gooseneck). U.S. graded beef (for example "Prime," and "Select") are popular both by consumers and high end restaurants. Other imported meat generally ends up in traditional Mexican cuts for consumption or food preparation. Reports of enhanced beef (i.e., beef injected with water to increase weight) as a common practice, may have an impact on actual consumption.

Taste around the country

Industry notes that the consumers prefer cuts like Rib Eye, New York, or the regional cut known as "*Aguja Norteña*" (chuck) and "*Cabreria*" (fillet) in Northern Mexico. Conversely, Southern Mexico prefers ribs, ground meat, and the aforementioned *bistec*.

Industry sources project that in the medium to long-term a slight increase in the breeding rate would allow an increase in the slaughter rate and, thus, lower priced beef supply. This in turn could drive up per capita consumption.

Trade

[4] http://www.economia-sniim.gob.mx/nuevo/

Import demand sustained.

The 2018 forecast for beef imports is revised upward to 205,000 tons, as demand is sustained. The official figure for 2017 shows 195,598 tons, up from 2016. This trend is expected to continue through 2018, in particular, supported by demand from the middle to high-income population, as well as further processing.

Steady market shares for U.S. and Canadian imports

Imports of U.S. beef in 2017 showed a 79 percent share (approximately the same share as in 2015 and 2016). Canada's share also remained steady, at 10 percent. Previous reports discussed efforts by Mexico to diversify the market through TRQs and dialogue with other countries (i.e. South America), but not much change in the composition of imports has taken place.

Nicaragua rises

The only country which has made inroads in the Mexican market has been Nicaragua, up to 8 percent in 2017 (6 percent in 2016 and 5 percent in 2015 for the same period). Nicaragua is principally sending fresh/chilled boneless (HS code: 020130), with smaller amounts of bone in product (HS Code: 020120).

Boxed beef

The majority of inspection facilities continue to receive imports of beef boxed at 15 kilograms, as some lack rails/hooks for carcasses.

Beef exports show some diversification

For 2018 the export forecast is revised upward to 305,000 tons, in part due to Mexico's diversification efforts. As previously reported, Mexico had success in Halal certification, with the expectation for expansion in the Arab market, coupled with success in expansion of exports to Asia. During 2017, Mexico saw growth in volume of exports across the board, including new destinations (such as Qatar for Halal), when compared with the same 2016 period. Notable were expanded volumes of exports to the United States, Japan, Hong Kong, Canada, and Chile. The United States remained the principal export destination at 89 percent. Mexico exports around 13-15 percent of domestic beef production, more (but not significantly more) than it imports of beef. Export figures for 2016 and 2017 were kept unchanged to reflect official data from INEGI.

Still looking at Russia and China

In 2018, Mexico continues negotiations with Russia to export beef, as well as to expand exports to China.[5] Discussions with both countries have recently taken place.[6]

Policy

[5] https://www.eleconomista.com.mx/mercados/Industria-mexicana-avanza-para-exportar-carne-de-res-a-Rusia-y-China-20171119-0008.html

[6] https://www.gob.mx/senasica/prensa/avanzan-gestiones-para-abrir-exportacion-a-mas-productos-de-mexico-a-china

The TRQ question

As reported in March of 2017, Mexico put in place a Tariff Rate Quota (TRQ) for 200,000 tons of beef to enter Mexico duty free from third countries without a Free Trade Agreement. See GAIN reports MX7005 and MX8000. The TRQ has yet to be filled, but domestic industry is concerned about maintaining their domestic market.

Beef grading to the forefront

On October 20, 2017, the Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA) published in Mexico's Federal Register (Diario Oficial de la Federación) a draft regulation to establish a domestic beef grading system which is similar to the grading system in the United States. The comment period has since ended, and Mexico is evaluating comments. See MX7984.

Production, Supply and Demand Data Statistics:

Meat, Beef and Veal	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5955	5955	6010	6070	6130	6160
Beginning Stocks	0	0	0	0	0	0
Production	1879	1879	1915	1925	1960	1960
Total Imports	188	188	205	196	210	205
Total Supply	2067	2067	2120	2121	2170	2165
Total Exports	258	258	280	280	295	305
Human Dom. Consumption	1809	1809	1840	1841	1875	1860
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1809	1809	1840	1841	1875	1860
Ending Stocks	0	0	0	0	0	0
Total Distribution	2067	2067	2120	2121	2170	2165
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Animal Numbers, Swine

Production

Continued vertical integration and infrastructure development

The pig crop production forecast for 2018 is revised upward to 20.2 million head as the commercial sector continues vertical integration and infrastructure development. This is propelled by strong domestic demand, stable feed prices, improved genetics, biosecurity measures, and positive expectations for exports due to recent recognition by the United States as Mexico being free of Classical Swine Fever.

The commercial pork sector in Mexico has growth rapidly in recent years, consolidating, and expanding production. Larger commercial producers are adding everything from feed processing facilities to farrowing facilities all the way down the chain to meat processing facilities and cold storage. These larger commercial producers use production systems similar to those in the United States. They also use sophisticated breeding techniques and enhanced feed to improve specific characteristics in meat such as marbling and taste. Swine account for around 17 percent of feed consumption in Mexico.[7] Finally, larger producers continue their interest in sustainability, including investments in renewable energy through biodigestors and solar panels.

PED less of a concern

While Porcine Epidemiological Diarrhea (PED) may still at times constrain important pork producing states in central Mexico, overall, Mexico has seen improvements in biosecurity and control, and PED does not impact national production. Factors that contribute to these constraints are unregulated mobilization of animals and manure. The Yucatan peninsula (the state of Yucatan one of the top for pork producing states in Mexico) continues its strict biosecurity measures, coupled with natural isolation, allowing producers to avoid PED.

Breeding lines

The principal breeds used in Mexican swine production are Duroc, Landrace, Hampshire, Chester White, Yorkshire, and Pietrain. However, not only purebred, but also hybrids are used in Mexico.

Trade

Imports have returned to normal

The swine import forecast for 2018 is revised upward to 46,000 head following a strong 2017 import year when numbers rebounded to 41,997 head. As previously reported, demand is sustained, supported by a desire to improve genetics and diversify genetic lines, as well as relevant government programs such as the Program for Genetic Improvement. The imports of live swine in 2017 were twice as high as in 2016, and closer in line with the 2015 figures. However it should be noted that the imports of live

[7] Asociación Mexicana de Productores de Alimentos (AMEPA), 2015.

swine has been rather cyclical over the past decade, fluctuating up and down on alternate years between 30-40,000 head and 10-20,000 head.

In 2017, imports from the United States held a 65 percent share, followed by Canada (34 percent) and Denmark.

Exports back to normal

While, Mexico exported 7,448 live swine to the United States in February of 2017, this trend is not expected to be sustained during 2018 as it appears to have been a one-off. As such, 2018 is forecast in line with historical exports, generally negligible.

Production, Supply and Demand Data Statistics:

Animal Numbers, Swine	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	9917	9917	10697	11603	11275	13283
Sow Beginning Stocks	1180	1180	1180	1180	1190	1190
Production (Pig Crop)	19200	19200	19600	19600	20200	20200
Total Imports	20	20	25	42	28	46
Total Supply	29137	29137	30322	31245	31503	33529
Total Exports	0	0	8	8	8	0
Sow Slaughter	15	15	15	15	15	16
Other Slaughter	17685	16779	18285	17200	18875	17500
Total Slaughter	17700	16794	18300	17215	18890	17516
Loss	740	740	739	739	780	760
Ending Inventories	10697	11603	11275	13283	11825	15253
Total Distribution	29137	29137	30322	31245	31503	33529
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Meat, Swine

Production

Enlarging infrastructure spurs pork production

The forecast for 2018 pork production is 1.3 million tons, up from the revised 2017 estimate.[8] In line with commercial sector vertical integration and expansion, production is expected to increase year on year. This growth continues the trend of past years. It is of particular note that infrastructure expansion (slaughter and processing facilities) are expected to be expanded in southern Mexico, in part to capitalize on natural biosecurity, and potentially U.S. recognition of Mexico as free of Classical Swine Fever (CSF). As mentioned in the beef section above, TIF facilities are also expanding across the country.

Production is still behind domestic demand

Despite the increases in domestic production, it is not sufficient to cover domestic demand. As previously reported, domestic production is led by the states of Jalisco, Sonora, Puebla, and Yucatan.

Consumption

Pork consumption keeps rising

The forecast consumption for 2018 is 2.33 million tons, and poised to exceed historical trends. This is principally due to the affordability of pork meat for consumers compared to beef, but helped by campaigns on the relative health benefits of pork, demand from processors, and traditional usage in dishes such as *cochinita pibil* and *tacos al pastor*. Pork goes into a variety of products from deli meats to hot dogs and sausages, often based on the relative price ratio with other meats such as turkey.

As demand for pork is high, Mexico generally imports between 40-50 percent of its domestic consumption.

Trade

U.S. hams to continue their flow to Mexico

The import forecast of pork for 2018 is 1.20 million tons, up 9 percent from the 1.08 million tons imported in 2017, reflecting good price points as well as demand. In 2017 the United States held 89 percent of the market share, while Canada followed at 11 (down from 14 percent in 2016 and 15 percent 2015). Imports overall continue a steady year on year increase. As previously reported, bone-in hams dominate the imports from the United States with other popular imported products including

[8] A revision was done to pork production to be in line with U.S. swine measurement protocol which does not include the head as a part of carcass weight. Mexico's measurement protocol for hogs includes the head.

mechanically-deboned meat and picnics. Carcasses are imported as well, principally for further processing, and potentially even re-export as a processed product.

CSF recognition expected to drive up exports

Pork exports for 2018 are forecast at 180,000 tons, in part reflecting continued growth as Mexico exploits its status as free of CSF.

On January 16, 2018, the United States Department of Agriculture's (USDA's) Animal and Plant Health Inspection Service (APHIS) published via the Federal Register recognition of Mexico as free of CSF. This announcement was warmly received by Mexico, and the expectation is that it will spur further expansion in the growing pork sector as a gateway abroad, by increasing internal mobility (previously only 9 states could export fresh pork to the United States), and by spurring investment and expansion. Mexico had previously been recognized by the OIE and several other countries as free of CSF.

Japan continues as the number one export market

Japan absorbs over three-fourths of Mexico's pork exports. Exports to South Korea have also grown in volume, representing 11 percent of Mexico's export market in 2017. Japan and South Korea demand highly-tailored products such as weighed patties, shish kabobs, and other products, capitalizing on Mexico's relatively cheap manual labor.

The expanding infrastructure, including federally certified slaughter facilities and plant authorized to export to Asian countries are expected to contribute to volume growth to the Asian markets. For example, following the opening of the market, China is now as notable export destination for Mexican pork. Although representing just 1 percent of Mexico's exports in 2017, shipments are expected to grow during 2018, and the market offers significant long-term potential.

Policy

Please see the above section for details on recognition of Mexico as free of CSF.

Industry pays close attention to multiple trade negotiations

Mexico is currently teetering on the edge of finalizing renegotiations of several major Free Trade Agreements (FTAs) as with the European Union and NAFTA, as well as seeking expansion of other South American economic agreements. As previously reported, the Mexican livestock sector has expressed concerns over Brazil regarding zoo-sanitary issues and reciprocity. The Mexico-EU FTA (known in Mexico as TLCUEM) was poised to conclude in late 2017/early 2018, but talks stalled due to several contentious issues. As previously reported, in the Mexico-EU FTA modernization, geographical indicators and market access are of key interest for the Mexican livestock industry. Finally, NAFTA negotiations are closely monitored by the Mexican industry. Import and export diversification efforts also continue.

Pork regulations coming down the road

Several official draft norms (known as NOMs) have now been long-expected to be published in regards to pork meat and the preparation of ham (cold meat).

Production, Supply and Demand Data Statistics:

Meat, Swine	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	17700	16794	18300	17215	18890	17516
Beginning Stocks	0	0	0	0	0	0
Production	1376	1211	1430	1267	1480	1305
Total Imports	1021	1021	1125	1083	1200	1200
Total Supply	2397	2232	2555	2350	2680	2505
Total Exports	141	141	160	170	170	180
Human Dom. Consumption	2256	2091	2395	2180	2510	2325
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2256	2091	2395	2180	2510	2325
Ending Stocks	0	0	0	0	0	0
Total Distribution	2397	2232	2555	2350	2680	2505
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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.

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Report Number	Title of Report
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MX7005	Mexico Opens Unilateral TRQs for Beef and Rice
MX6032	Mexico: Livestock Annual
MX6025	Mexico Establishes TRQs But No Need To Worry