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Mexico

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Vertical Integration Bolsters the Mexican Poultry Industry

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Report Highlights:

New trends in vertical integration and a repopulated flock are fueling recent growth in the poultry sector. However, Mexico has not escaped the legacy of recent avian influenza outbreaks, and biosecurity concerns continue, despite improved zoo-sanitary conditions. Broiler meat continues as the preferred animal protein choice domestically and the most affordable. The demand from processors for mechanically deboned meat and from low- and medium-income consumers for chicken leg quarters will continue to drive imports.

Commodities:

Poultry, Meat, Broiler

Production:**Vertical integration and diversification is taking place while the poultry sector builds biosecurity capacity.**

The 2017 forecast is revised slightly up to 3.38 million metric tons (MMT). The poultry production sector in Mexico has seen improvements based on many factors, including, biosecurity, vertical integration, efficient incubation facilities, new spent hen slaughterhouses, and the use of manure as fertilizer. In addition, the *Union Nacional Avicola* (UNA) recently reported that the domestic flock has been repopulated, and that the domestic poultry sector production has recovered from the 2012 HPAI outbreaks. The 2016 production estimate is also revised upward, due to the factors mentioned above, as well as UNA's preliminary 2016 figures.

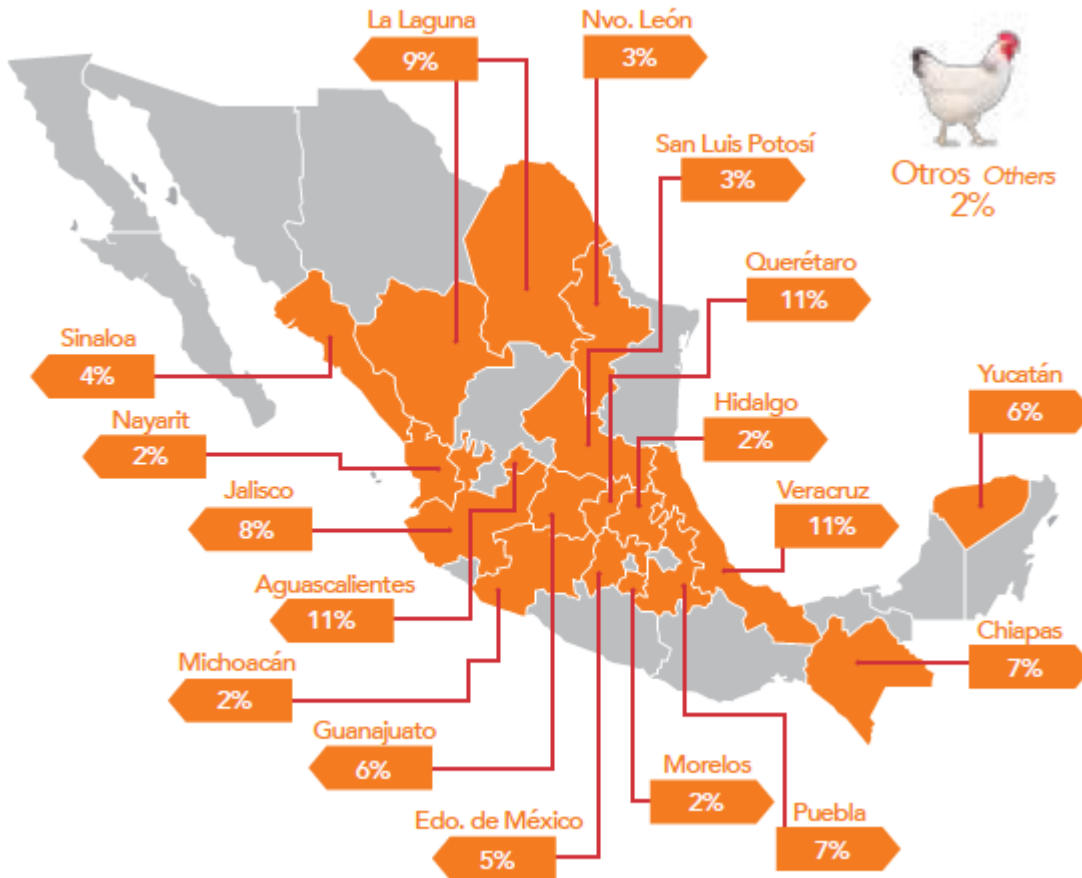
Currently, most of the large actors in the poultry sector are vertically integrating in order to lower costs, have reliable supply chains, and therefore produce more efficiently and sustainably. Vertical integration is a relatively new trend, and is paralleled by an uptick in production diversification (i.e. owning both poultry and pork or dairy facilities) to reduce risk. Many companies now own the complete supply chain, from raw materials (i.e. grains) produced for feed on company owned or contracted land, to processing facilities with the ability to innovate and add value to by-products.

For example, a new processing facility in the State of Jalisco seeks to add value to spent hens by developing a new distribution channel for their meat through supermarket chains. This new emphasis on marketing spent hens seeks to take advantage of traditional recipes/knowledge. As the old Mexican saying goes, “gallina vieja hace buen caldo” or, “the old hen makes good broth.” Whole, spent hens are currently sold in local or wet markets where they are primarily purchased by small restaurants preparing broth. Other examples of added-value include hard-boiled eggs sold as snack food, and side-businesses for selling manure as fertilizer.

Poultry dominates livestock production.

Based on preliminary commercial livestock production numbers from Servicio de Información Estadística Agrícola y Pecuaria (SIAP), in 2016 the poultry sector accounted for approximately 63 percent of the total livestock production. Chicken meat production (including both broilers and spent hens) accounted for 33 percent, while eggs represented 29 percent, and turkey production was less than one percent. As noted, these figures comprise only commercial production. Even though the backyard production of broiler meat and table eggs is important and prevalent throughout Mexico, it continues to be on a small scale for household consumption, and thus, hard to quantify.

Main Chicken Producing States in Mexico 2015



Source: Compendio de Indicadores Económicos del Sector Avícola, Edición 2016, UNA

The legacy of avian influenza is difficult to overcome.

Although the zoo-sanitary situation has improved, the sector remains concerned about potential High Path Avian Influenza (HPAI) and Low Path Avian Influenza (LPAI) outbreaks given the migratory patterns of wild birds and the relatively short distance between production centers. The close proximity between farms and with suburban developments compelled authorities and producers, particularly in Jalisco, to use vaccines after the 2012 HPAI outbreak. Vaccination is still in use among some producers. During 2015, Mexico reported two separate HPAI outbreaks to the OIE, both involving the H7N3 strain. The impacts were primarily in Jalisco and Puebla, and reporting continued in 2016. The sector continues to be proactive on implementing biosecurity measures, and is in a better position to cope with a persistent disease, such as HPAI.

UNA is developing medium- to long-term projects to support poultry sector and to increase transparency in the face of disease outbreaks. The first is an indemnification program to encourage producers to report the presence of exotic diseases and receive an indemnification payment if affected. The second would be the creation of the National Poultry Research Center to provide greater scientific awareness and the knowledge to prevent and eradicate exotic diseases.

Consumption:

Broiler meat maintains its position as a staple food and the preferred protein in Mexico.

Consumption for 2017 is forecast slightly up at 4.2 million tons. Although poultry consumption has competed with low pork prices in recent times, affordable prices and steadily increasing production maintains broiler meat's position as consumers' preferred protein and as a staple food for low- and medium-income households. Overall, broiler meat continues to be the most affordable animal protein. In particular, the low-income population maintains a high demand for chicken leg quarters (CLQs). For the same reasons, consumption for 2016 is up from 2015, at almost 4 million tons.

Trade:

The United States maintains its place as the principal supplier of broiler meat imports.

The 2017 import forecast is slightly lower at 840,000 tons, but indicating growth from 2016. As previously reported, mechanically separated and deboned meat is in high demand by Mexican processors for the preparation of cold deli meats and other processed meats like chicken nuggets. The development of new distribution channels in the Hotel and Restaurant Industry (HRI) sector contributes to this high demand. Mexico has seen the development of a great number of new restaurant franchises, which are marketing added-value products (i.e. wings) to consumer groups such as millennials, generation Z, and older generations. The 2016 figures are revised slightly down based on updated data from INEGI, however maintain an increase from 2015.

Mexico's broiler meat imports originate principally from the United States, which accounted for 94.3 percent of the total imports during 2015. As of November 2016, imports from the U.S. represented 90.2 percent of the total imported, 3.4 percent lower than the same period of 2015, but prior to the holiday season. As previously reported, Chile and Brazil continue gaining minor market shares. Under the tariff rate quota (TRQ) for poultry meat for third countries, Brazil is developing steady inroads in the frozen poultry products market and is likely to be competitive in the Mexican market in 2017. (See Policy Section).

Exports of broiler meat remain low.

As Mexico continues working to reopen foreign markets that closed after the 2012 outbreak of HPAI, 2017 exports are forecast at 6,000 tons. In 2015/2016, progress was stymied by the aforementioned HPAI events. That said, in 2016, Vietnam re-opened to Mexican exports, and the most recent country to re-open its market for Mexican poultry products is Cuba. The 2016 figures are revised slightly up based on recent data, but are still below 2015 levels, due to domestic demand and international market conditions.

Policy:

Separate policy measures to protect both domestic industry and consumers have had minimal impact on trade.

On November 25, 2016 the Secretariat of Economy (SE) published a notification in Mexico's Federal Register (*Diario Oficial de la Federacion- DOF*) informing interested parties that the compensatory duties applied to several products from various countries, including U.S. chicken CLQs, under H.T.S. codes 0207.13.03 and 0207.14.04, will end in 2017. SE requested that all parties who believe that the ending of these compensatory duties will affect their interests to provide a written request for SE to initiate an examination procedure. It is important to note that due to the outbreak of HPAI Type A (Subtype: H7N3) in Mexico, beginning in 2012, and its distortionary effects on leg and muscle prices, the compensatory duties were never applied for CLQs (See MX6042). These currently unapplied compensatory duties were announced in 2012 through a final resolution from SE regarding anti-dumping.

Separately, and as a direct measure to prevent a price escalation of poultry products due to the HPAI outbreak of 2012, the Secretariat of Economy (SE) published, in early 2013, a TRQ scheme for 300,000 MT of poultry meat to be imported duty-free from third countries without a Free Trade Agreement with Mexico. The TRQ was extended twice, and currently is scheduled to end by December 2017. UNA claimed that SE did not conduct the appropriate technical analysis and justification to extend the validation time of the TRQ (see MX6003 and MX4016), and continues to petition SE to suspend the duty-free TRQ. The TRQ is not fully filled, but Brazil's market share is growing as a result.

Production, Supply and Demand Data Statistics:

Poultry, Meat, Broiler Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	3175	3175	3270	3285	3335	3384
Total Imports	790	790	820	800	850	840
Total Supply	3965	3965	4090	4085	4185	4224
Total Exports	5	5	3	4	7	6
Human Consumption	3960	3960	4087	4081	4178	4218
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	3960	3960	4087	4081	4178	4218
Total Use	3965	3965	4090	4085	4185	4224
Ending Stocks	0	0	0	0	0	0
Total Distribution	3965	3965	4090	4085	4185	4224

(MIL HEAD), (1000 MT)

Not Official USDA Data

Commodities:

Poultry, Meat, Turkey

Production:

There is limited growth in Mexico's turkey production.

The forecast for production in Mexico is kept unchanged at 13,500 tons in 2017. Production for 2016 was revised up to 13,000 tons due to the latest production data from UNA, representing slight growth from 2015. As mentioned in previous reports, this reflects both Mexico's recovery from their own 2012 HPAI outbreak, but also, a small effort to supplement relatively lower production of turkey in the United States in 2015 and 2016 due to the U.S. HPAI outbreak (i.e. fewer available imports). Production continues to be constrained by a reduced number of producers, lack of incentives to enhance the limited production, and a dependence on importation.

Consumption:

Turkey is still a holiday treat, but day-to-day consumption sees increases.

Turkeys were first domesticated in the meso-american region, and turkey meat has roots in many traditional recipes. The consumption of whole turkeys remains largely seasonal, and a whole bird is often prepared for holiday feasts such as Christmas Eve dinner. Particularly in the southern states of Mexico, turkey is also used as an ingredient in traditional dishes both at the household level and in the HRI sector.

While turkey consumption is relatively low in Mexico when compared globally, consumers are increasingly demanding processed products such as deli meat using turkey due to the perceived health benefits, thereby sustaining demand from processors for the preparation of such products.

Trade:

As with broiler meat, the United States is the principal supplier of turkey to Mexico.

The forecast for 2017 turkey meat imports remains unchanged at 150,000 MT. Traditionally, Mexico has sourced more than 90 percent of its turkey meat from the United States, and this trend is not likely to change in the short- to medium- term as the meat is in high demand from Mexican processors. In 2016, SENASICA authorized, for the first time, two Brazilian turkey plants for export to Mexico. Although significant amounts are not currently expected, the opening signals demand for imported frozen turkey breasts from Brazil. In addition, Mexico's imports from Chile continue to compete for market share.

Imports from the United States are rebounding rapidly following the U.S. HPAI outbreak, which affected turkey production in 2015. Prior to the U.S. outbreak, turkey meat imports from the United States were consistently around 150,000 tons. That number is expected to be regained in 2017.

Most turkey imports go into processed meat products, such as ham.

Of the turkey meat Mexico imports from the United States (the majority of which is mechanically separated turkey meat), nearly 80 percent is used to prepare blended turkey-pork hams or sausages. It is important to note that in Mexico, the term "ham" refers to a food preparation process or a deli meat

rather than the pork cut known as ham. Labeling of ham is allowed under Mexican official standard “NOM-158-SCFI-2003” for four different kinds of preparation and processes. The four kinds are pork ham (pork only), turkey ham (prepared with turkey thighs), pork/turkey ham (55 percent is pork), and turkey/pork ham (55 percent is turkey).

As these blended hams contain mechanically separated turkey meat and pork, there is a relative elasticity to use either higher or lower volumes of both ingredients in correlation to the relative price ratio of each ingredient. Expected low pork prices, particularly for imports from the United States, may slightly constrain imports and use of turkey meat in these blended products.

Turkey meat exports are negligible.

Exports of turkey meat in 2017 are expected to continue at a negligible level. This is due to several factors, including a lack of incentives to enhance the limited production, and a long-standing dependence on imports.

Poultry Meat, Turkey

	2015	2016	2017
Production	12,000	13,000	13,500
Imports	130,000	140,000	150,000
Exports	1,100	1,000	1,000
Consumption	141,000	152,000	162,500
(MT)			

Not Official USDA Data, Post estimates

Commodities:

Poultry, Eggs

Production:

Egg-citing expansion of egg production in Mexico.

The forecast for 2017 egg production is unchanged at almost 2.8 million MT based on estimates from UNA. As previously reported, the poultry and egg sector continues to spread production in areas beyond the historical producer States of Jalisco and Puebla. These new production areas, including San Luis Potosi and others in northern Mexico, offer natural biosecurity conditions, such as lower concentrations of farms with greater distances between them, which help to avoid horizontal contaminations. Horizontal contaminations are common in central regions, such as the HPAI outbreak in 2012 in the state of Jalisco.

Similar to broiler meat, egg producers may be encouraged to increase production via the above-mentioned potential UNA indemnification program. However, small LPAI outbreaks in certain production areas continue to concern producers. The trends in vertical integration and diversification mentioned above apply to egg producers as well.

Recently, the development of “Cage free” or “Free range” production systems is reportedly on the upswing, given the demand from younger generations and their influence over consumer trends. However, an increase in overall egg production due to the implementation of these systems is not yet foreseen in the short- to mid-term.

Egg Production in Mexico (MT)	
2012	2,386,576
2013	2,509,350
2014	2,571,270
2015	2,637,581
2016	2,716,708*
2017	2,798,209**

Source: UNA’s Compendio de Indicadores Económicos del Sector Avícola, 2016. *Preliminary figure.
** Forecast.

Consumption:

Eggs are a staple food both at home and in restaurants.

UNA’s per capita egg consumption estimate for 2017 is 23 kilograms per person, a marginal increase from their 2016 figure of 22.9 kilograms per person. For most Mexican consumers, eggs are a staple food consumed either at home or in restaurants. It is common to see dishes at high-end restaurants including eggs, as well to see consumption at popular street markets and “*cocinas economicas*” as toppings on, or ingredients in, traditional dishes. To a small degree, older generations in low-income households consume raw eggs combined with orange juice or with “jerez” (sweet wine) as a breakfast substitute.

The majority of eggs consumed in Mexico are nest-run. This means that they are generally hand selected at farm for quality, and the cuticle is not removed. As such, eggs are not traditionally refrigerated, but are stored and sold without refrigeration. Eggs destined for further processing are generally washed and chilled as appropriate.

Mexican consumers are buying white eggs.

Approximately 3-5 percent of egg production in Mexico is comprised of brown/red eggs. Despite a perception by consumers that brown/red eggs are of higher quality, this percentage is not expected to increase, in part because the eggs are generally more expensive. The hens which produce brown/red eggs are generally larger “*gallinas pesadas*,” compared with those that produce white eggs “*gallinas ligeras*.” Consumers associate the brown/red eggs with backyard or ranch production, and often believe that the eggs contain more protein. At standard supermarkets (Chedraui, Soriana) and wet markets, the overwhelming majority of eggs are white. In specialty grocery stores (City Club), small quantities of brown/red eggs might be found.

Processed egg products are on the rise.

A recent trend in medium- to high-income areas is for supermarkets to sell processed egg products. Liquid eggs, whites, or yolks, are the most common products offered for easy food preparation (such as for omelets) at households and restaurants. However, a larger amount of processed eggs are destined for the bakery and confectionery sector. The consumption of processed egg products is expected to continue gaining share in the diets of younger generations.

Trade:

Imports of eggs remain relatively low; retail consumers favor orange yolks.

Despite a strong U.S. dollar and growing domestic production, egg product imports for industrial purposes are expected to remain stable in 2017. This is due to the sustained demand from processors in the bakery and confectionery industry. As of November 2016, Mexico's trade data (INEGI) for both table eggs and egg products (including hatching eggs) shows imports slightly up at 63,350 MT from the same period in 2015. Of that, 99 percent come from the United States, with less than 1 percent from Brazil and Argentina.

From the United States, almost 60 percent are hatching eggs, while 35 percent are fresh table eggs.

Generally, Mexican eggs are preferred by consumers at retail due to the orange-colored yolk, which is achieved by a high carotene diet of the layer hens. U.S. table eggs tend to have a more yellow yolk. As such, the imported eggs are generally directed to the processing industry, i.e. among the bakery and confectionery industry, to high-end resorts, and restaurants.

Exports of eggs are still recovering from HPAI outbreaks.

Mexico is slowly regaining markets that closed during Mexico's HPAI outbreaks in 2012 and 2015. For example, the export market to Japan recovered in 2016. Japan has traditionally been the largest market for Mexican egg products, specifically for dried egg whites (HS 350211). The sector is eager to re-open several African markets, following the 2012 HPAI outbreak. During the 2015 HPAI outbreak in the United States, Mexico exported limited quantities of breaking eggs to processing facilities. Mexico also exports limited quantities of hatching eggs, certified as pathogen-free.

Commodities:

Poultry, Broiler Meat; Poultry, Turkey Meat; Poultry, Eggs

Crosscutting Challenges in the Poultry Sector: Gas Prices and the Exchange Rate

Two crosscutting issues are of particular concern to the poultry sector in 2017. The first is the "Gasolinazo," or, gas price hikes, which began in the final months of 2016. Some industry representatives have noted slowed transportation time for products, in part due to various blockades or protests.

The second crosscutting issue is the exchange rate. The devaluation of the peso against the dollar provides both incentives for export and disincentives for expensive imports. The poultry sector (including both layer hens and poultry meat) is the primary consumer of feed grains, and sources the majority of their imported grains to process for animal feed from the United States. Although there are low and stable feed prices globally, the turmoil in the peso-dollar exchange rate is being monitored by producers. Overall, the import trend of feed ingredients is not expected to change substantially, nor dramatically affect production prices in the short-to medium-term.

For More Information:

FAS/Mexico Web Site: We are available at www.mexico-usda.com.mx 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	Subject	Date Submitted
MX6045	Mexico Announces a Sunset Review on Compensatory Duties for U.S. CLQ	12/19/2016
MX6033	Mexico Improves Biosecurity to Address AI Outbreaks	10/14/2016
MX2058	Chicken AD Final Resolution	8/1/2012