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THE MEXICAN MARKET FOR BEEF AND BEEF PRODUCTS

Report Categories:

Product Brief

Approved By:

W. Garth Thorburn

Prepared By:

PIA CORTES

Report Highlights:

Mexico continues to be the largest export market for U.S. beef and beef product exports despite the economic downturn. U.S. beef is consumed at restaurants and hotels and sold in supermarkets and warehouse clubs. This trend will continue. Mexico is expected to remain a vibrant market for U.S. beef exports as the market continues to evolve and the number of supermarkets grows.

General Information:

SECTION I. MARKET OVERVIEW

The U.S. recession and the global financial crisis that began in August 2008 are having a negative impact on Mexico's economy. The weak economic forecast in the United States is having a spillover affect on Mexico's consumer confidence which is expected to remain low throughout 2009.

According to Euromonitor, Mexico's consumer confidence index decreased to 81.9 in January 2009, from 103.5 in January 2008. Consumer confidence is an important indicator in Mexico because consumer expenditures drive the economy. In 2008, total private consumption expenditures accounted for 65.2 percent of GDP.

The weak peso relative to the U.S. dollar is also affecting consumer confidence and purchasing power. Nevertheless, consumers are experiencing some relief from slowing inflation as global commodity prices fall. According to Euromonitor, inflation in Mexico rose by 0.69 percent for the month of December 2008, down from 1.14 percent for the month of November 2008. Mexico's economy is expected to contract by -0.3 percent in 2009. In 2008, the economy expanded by 1.8 percent. It is expected that in 2010, GDP will once again grow to a level of 2.1 percent.

Beef consumption in Mexico is forecasted not to increase in the current year. Additionally, the over-supply of chicken meat has resulted in significant price discounts that have shifted demand away from beef for lower to middle income consumers. However, Mexican upper-middle and higher income consumers are expected to continue to consume beef as before.

Total U.S. Exports (0201) of Beef Fresh/Chilled
(Millions of Dollars)

| Country | Jan-Dec 2006 | Jan-Dec 2007 | Jan-Dec 2008 |
|-------------|--------------|--------------|--------------|
| World | 1,207 | 1,471 | 1,810 |
| Mexico | 752 | 704 | 808 |
| Canada | 318 | 464 | 546 |
| Japan | 53 | 158 | 249 |
| Taiwan | 36 | 52 | 60 |
| Netherlands | 2 | 14 | 34 |

Source: World Trade Atlas

| Advantages | Challenges |
|---|---|
| Mexico maintains import duties at zero and no quota restrictions for most U.S. beef and variety meat imports. | The weakened peso makes U.S. product prices more expensive than domestic goods. |
| Recognition of U.S. high quality products by Mexican consumers. | Domestic products are the best option for price conscious Mexican consumers. Mexican beef producers would like to impede the import of U.S. beef to protect their market. There have been attempts to change Mexico's regulations governing the import of meats, including U.S. beef. |
| Retail chains, hotels, restaurants recognize | Increased competition makes more options |

| | |
|---|---|
| U.S. meat products consistency in quality and supply. | available to the Mexican consumer. |
| Better distribution systems are being developed by major retailers for high-value imports, which includes better cold chain technology. | Prices of U.S. processed products are 15 to 45 percent higher than domestically produced goods. |

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

The Federal Law on Animal Health drafted by The National Service of Agro Alimentary Health, Safety, and Quality (SENASICA) dated January 30, 2009, prohibits the importation of frozen meat and frozen meat products in “combo bins” because conducting inspections and sampling products in combos is considered difficult.

This decision will strengthen what has already been established in NOM-030-ZOO-1995 “specification and verification procedures for meat, carcasses, offal and offal imports at sanitary check points”. The import of chilled meat products packed in combos is allowed if these products conform to the animal health requirements and other health measures established by the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). The enforcement of these measures is the responsibility of SENASICA. Please refer to SENASICA’s website for phytosanitary requirements: <http://148.245.191.4/zooweb/> or call at: 011-5255-5905-1072 or 011-5255-5905-1071.

In January 2009, Mexico was the largest export market for U.S. beef exports. Retailers, hotels and restaurant sectors are the principal consumers of beef and beef products. The following is a brief description of their activities:

Retail Sector

The retail sector continues to be the major distributor of beef and beef products in Mexico.

Currently, supermarkets have better distribution systems and are better equipped to satisfy increasing consumer expectations. The expansion of discount superstores such as Sam’s Club and Costco will continue. These outlets will continue to offer higher U.S. quality meat cuts, such as “choice” meat. Also, new upscale supermarkets have been created such as City Market from Comercial Mexicana. City Market carries a wide variety of beef products, both imported and domestically produced.

Hotel Sector

Deluxe hotels in Mexico cater to international and wealthy local tourists. These hotels are the primary consumers of imported beef products. Such purchases are made directly from the packer, from specialized companies, importers, supermarkets or through central wholesale markets.

| Category | # of Hotels | # of Rooms |
|-----------------|--------------------|-------------------|
| Five Star | 679 | 122,449 |
| Four Star | 1,264 | 99,635 |
| Three Star | 2,146 | 86,595 |
| Two Star | 1,873 | 56,280 |
| One Star | 1,813 | 44,149 |
| No Category | 5,285 | 106,796 |
| TOTAL | 13,060 | 515,904 |

Source: Secretary of Tourism

Restaurant Sector

Mexicans regularly eat three times a day, including a light breakfast and light dinner and a heavy lunch in the middle of the day. In most urban areas, due to the long distances traveled and traffic congestion, many Mexicans now eat in their offices or office cafeteria, or in restaurants for meetings. It is not uncommon, in Mexico City, to have work dinners, breakfasts or lunches. Mexicans eat a combination of locally produced foods and foreign imports and the population is becoming increasingly accepting of foreign foods.

Over the past decade Mexican's were introduced to a wide variety of new foods. The demand for these new foods continues to increase. Even though Mexicans are more accepting of foreign cuisines, the average Mexican continues to eat in a way that defines their culture, by including tortillas, limes, avocados, peppers and other local ingredients.

The Mexican restaurant industry is comprised of 243,000 restaurants. Approximately 15 percent are located in Mexico City and the top five percent are considered luxury establishments which always source U.S. beef products. Purchases are regularly done from a selected butcher who specializes in catering to the sector.

Entry Strategy

The U.S. Agricultural Trade Offices (ATO) can provide general market and sector specific

information, as well as assist U.S. exporters in identifying trade contacts and developing their marketing strategies in Mexico. Also, the U.S. Meat Export Federation (USMEF) has offices in Monterrey and Mexico City that can assist exporters.

In order to prepare an effective entry strategy for the Mexican market, meetings with importers, buyers, distributors and retailers are highly recommended. This will provide potential U.S. exporters with a better understanding of the Mexican market and provide important commercial contacts.

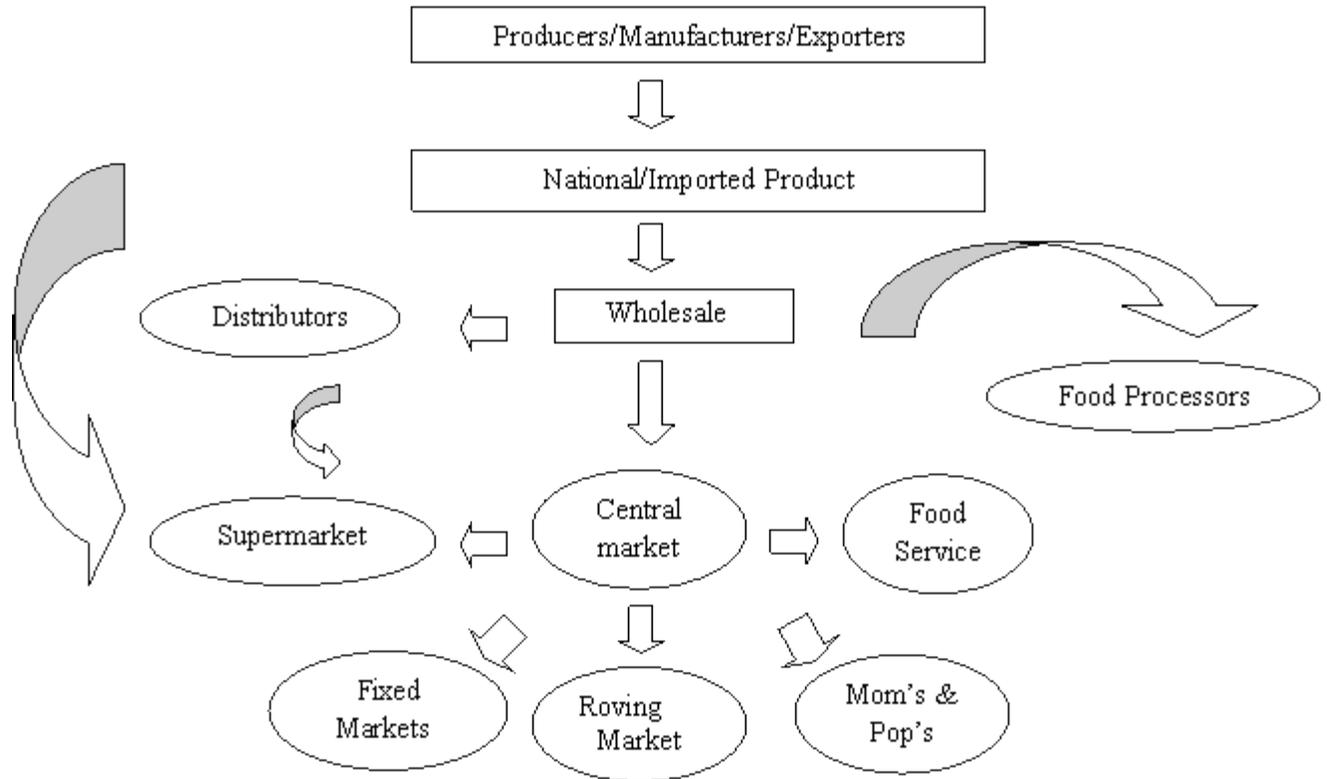
It is important to know and understand Mexican import regulations in order to more effectively deal with any market challenge and take advantage of market opportunities. If a local distributor is contracted, a good relationship needs to be established and constant contact maintained. This will assist the U.S. producer in securing current and relevant information on possible changes in import requirements.

The ATO organizes U.S. Pavilions at the most important tradeshows in Mexico. Participating in the U.S. Pavilion can assist you in showcasing your products and in distributing information about your company and product line directly to local distributors, buyers and businessmen. Participation in these shows will also give you an opportunity to meet with local competitors.

Market Size, Structure, Trends

The economic downturn in Mexico has directly impacted consumer's preferences toward choosing less expensive animal proteins. Also, the economic downturn has limited the number of restaurant visits with more consumers choosing to stay at home. However, these consumers are still purchasing high quality U.S. beef at supermarkets in order to sustain their beef consuming habits.

FOOD DISTRIBUTION FLOW CHART



SECTION III. COSTS AND PRICES

Tariffs

OIE Standard and BSE-Related Restrictions on Imports from the U.S.

| Age restrictions | Specified risk material (SRM) definition | Commodity restriction |
|------------------|--|---|
| Under 30 months | Brains, eyes, spinal cord, skull, tonsils, and small intestine | No ground meat, feet, sweetbreads, weasand meat, or head meat |

Although all cattle and most beef products from the United States enter duty free under NAFTA, Mexico maintains antidumping duties on certain bone-in and boneless beef cuts. Duties range from \$0.07–0.80 per kg and were first established in August 1999. There are no other major trade barriers in Mexico that are applied to U.S. beef exports.

SECTION IV. MARKET ACCESS

Import Requirements

Imports of beef and beef products into Mexico are subject to sanitary requirements. These products do not require an import license. They must be from U.S. slaughter facilities approved by the U.S. Department of Agriculture's Food Safety Inspection Service (FSIS) as qualified for exporting to Mexico.

The meat is inspected at the plant by an FSIS inspector and once its wholesomeness is determined, it is stamped. The seal means it has been inspected and passed.

FSIS form 9060-6, the Application for Export Certificate must be signed by a plant official and the FSIS inspection personnel. This form guarantees that:

- The product is eligible for export to Mexico.
- The plant is eligible to export to Mexico.
- The plant's export verification program is listed on USDA AMS' website.
- The eligible product is segregated from the ineligible product.

The FSIS Export Certificate of Wholesomeness, form 9060-5, is accepted by the Mexican Department of Health as the certificate of free sale for U.S. processed meat products.

Export Verification Program

The Export Verification Program (EV) is approved by USDA's Agricultural Marketing Service (AMS). The program specifies the requirements for products that will be exported to a particular country. The meat processing plant in the U.S. must make a request to AMS for an audit. AMS will conduct an audit and if the plant passes, the plant will be added to their approved list. In Mexico, the EV for beef requires that meat comes from animals that are 30 months of age or less and that high risk materials (brain, eyes, spinal cord, skull, tonsils and small intestine) are eliminated. For veal, bone-in and boneless derived from animals less than 36 weeks of age is not subject to an approved EV program. However, an EV program is necessary if the facility also handles non-conforming product in which case the EV program is required to ensure control of the non-conforming product.

The exporter must include an invoice, airway bill, certificate of origin, and a certificate of wholesomeness issued by the U.S. sanitary authority (FSIS), declaring that the products, identified by production lot, are safe and fit for human consumption; indicating the country of origin and expiration date. The importer is responsible for obtaining other required documentation such as "*Aviso Sanitario*

de Importación, Pedimento de Importación,” “Constancia Sanitaria,” etc. FSIS export requirements to Mexico can be found at:

http://www.fsis.usda.gov/Regulations_&Policies/Mexico_Requirements/index.asp

Products qualifying as "North American" must use the NAFTA certificate of origin to receive preferential treatment. This form is available from the U.S. Customs Service, freight forwarders, local U.S. Chambers of Commerce or State Departments of Agriculture, and does not have to be validated or notarized. NOTE: Mexican Customs Law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of the merchandise. Exporters are advised to employ competent, reputable Mexican importers or custom brokers. Shipments must arrive at a port of entry with available cold storage facilities. The major land crossings are Ciudad Juarez, Matamoros, Mexicali, Tijuana, Nogales, Nuevo Laredo, Colombia, Reynosa. The sea ports are Manzanillo, Colima, Mazatlan and Sinaloa.

Sanitary Requirements

Since January 2003, the Mexican border closed for the following products from Canada and the U.S.

- Live cattle (except for dairy cattle under 24 months)
- Boneless and bone-in meat from cattle 30 months of age or older
- Bovine offal and viscera other than those currently authorized
- Products derived from non-protein-free tallow
- Gelatin and collagen prepared from bone
- Ruminant meal
- Ground beef

Permitted products

Breeding cattle

Dairy Cattle

Tallow (human consumption)

Blood (human consumption)

Breeding bulls

Bone-in meat from cattle under 30 months of age

Boneless beef from cattle under 30 months of age

Marinated boneless beef from cattle under 30 months of age

Beef based preparations, beef/pork based preparations, beef/sheep based preparations and

beef/pork/poultry based preparations
Veal boneless or bone-in
Hearts, kidneys, tongue and lips from cattle under 30 months of age
Diaphragm and trimmings from cattle under 30 months of age
Tripe from cattle under 30 months of age
Meat, carcasses, viscera, and heads from sheep under 12 months of age
Meat, carcasses, and viscera from goats under 12 months of age
Liver
Milk
Dairy products
Semen
Embryos
Protein-free tallow not fit for animal consumption
Dicalcium phosphate (DCP)
Skins and hides
Gelatin and collagen obtained from hides and skins
Pet Food (see MX4040 for more details)
Sausage made from beef and pork with or without cheese
Live sheep for immediate slaughter

Labeling

Labeling is divided into two categories: one for bulk shipments and the other for individual packages. NOM 30 requires that labels of combos or boxes should have the following information printed either on the box, combo or on a label:

- The original product label applied at the plant of origin, including product name, net weight in kilos, name, address and establishment number of the plant and packaging date. All written in the language of the country of origin.
- A label in Spanish including country of origin, name, establishment number and plant address, name of the product and handling statement “keep refrigerated” or “keep frozen”.
- Boxes or combos should have a visible seal of the sanitary inspection service of the country, in this case the seal of USDA FSIS export stamp (with a corresponding number to the Export Certificate).

NOM-051-SCFI-1994 regulates the information that must be included in a label for individual packages (consumer ready goods):

- Name or type of product and brand. The brand name doesn't need to be translated.
- List of ingredients in descending order for those ingredients equal to or exceeding 5 percent of the product composition. This includes added water plus the specific percent content of combined additives or colors.
- Net content or drained weight as appropriate in metric units.
- Name and address of manufacturer. In the case of pre-packaged imported products the label must bear the name and address of the importer as well.
- This information may be added to the pre-packaged product once inside the country (after clearing customs) but before sale.
- Country of origin using language such as "made in" or "product of".
- Lot ID or badge number. This can be based on the manufacturer's own numbering system and is intended for the purpose of product recall if it becomes necessary.
- Expiration date as determined by the manufacturer.
- Nutritional information required when the label makes any nutritional claim.
- Optional label information may include: "best consumed by" (date).
- Complimentary nutritional information such as vitamins and minerals and instructions for use or preparation.

A label showing the product type, brand and net content must appear on the package's primary display panel. All other required or optional labeling information may appear on any other surface of the packaging.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

U.S. Agricultural Trade Office, Mexico City

W. Garth Thorburn, Director

Liverpool # 31

Col. Juarez

06600 Mexico, DF

Tel: (011-5255) 5080-2000

e-mail: atomexico@usda.gov

U.S. Agricultural Trade Office, Monterrey

Richard Battaglia, Director

Oficinas en el Parque Torrell

Blvd. Diaz Ordaz No. 140, Piso 7

Col. Santa Maria, 64650

Monterrey, Nuevo Leon

Tel: (011-5281) 8333-5289

Fax: (011-5281) 8333-1248

e-mail: atomonterrey@usda.gov