



# International Agricultural Trade Report

*Trade Analysis: Dairy, Livestock, & Poultry*

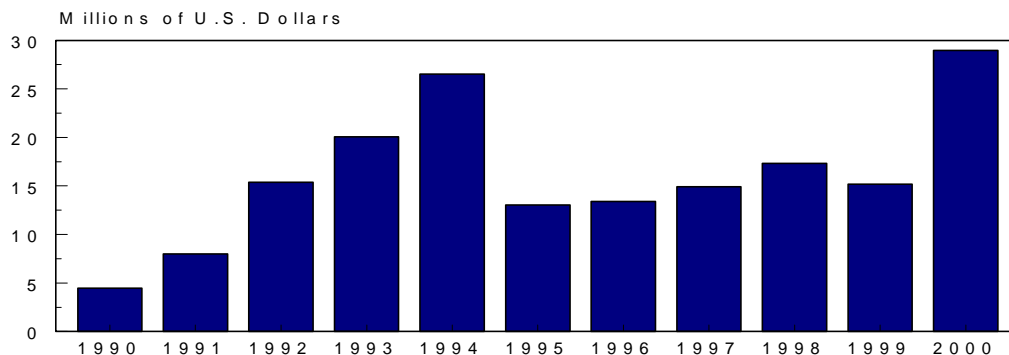
March 26, 2001

## Why U.S. Exporters to Mexico are Smiling When They Say Cheese

### Summary

In the early 1990's, U.S. cheese exports to Mexico were rapidly expanding. They peaked in calendar year 1994 when the peso devaluation caused a severe market retraction, and until last year, the recessions that followed made recovery difficult. In 2000, U.S. cheese exports to Mexico not only recovered, but reached 10,301 tons, a new record. This represents a 102-percent increase from 1999 and close to \$29 million in sales. What happened in the Mexican market to explain such a dramatic increase? Is this trend likely to continue in 2001?

### U . S . C h e e s e E x p o r t s t o M e x i c o



### Increased Growth of the Mexican Economy

The Mexican economy grew at an exceptional rate in 2000 due to both external and internal factors. According to the Mexican Ministry of Finance (SHCP), the economy grew more than 7 percent in 2000. The unemployment rate averaged 2.2 percent, the lowest annual average since 1985, and investment grew 10.9 percent in real terms compared with 1999. The stability of the peso, a drop in the inflation rate, and low interest rates have all led to a positive business environment and increased purchasing power. The robust U.S. economy and high international oil prices also played a significant role in Mexico's economic growth in 2000.

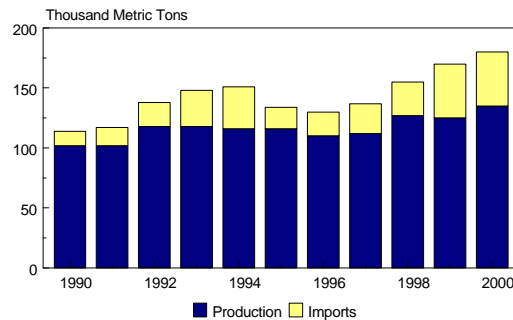
The outlook for 2001 looks good, but due to the slowdown in the U.S. economy and the possibility of lower international oil prices, economic growth will not be nearly as strong. Still, SHCP forecasts an economic growth rate of 4 percent in 2001, and as the economy grows and

income levels rise, the demand for dairy products, including cheese, a very important component of the Mexican diet, will also increase.

### **Limited Domestic Production Requiring Increased Imports to Meet Demand**

In the past 2 years, Mexico has imported around 50,000 tons of cheese each year to meet its shortfall in domestic production. In 1990, only 11 percent of consumers purchased imported cheese, but in 2000, that number reached 25 percent. This trend towards increased consumption of imports has held steady even through the 1994 peso crisis and the 1995/96 recessions. Clearly, this is an important market for U.S. cheese exporters.

### **Mexico: Cheese Production and Total Imports**



Although cheese production is forecast to increase 1.4 percent in 2001, consumption is forecast to increase 2.2 percent. Imports will continue to make up the difference. Imports are forecast to increase at least 2 percent in 2001.

### **Competitive Market Conditions Favoring U.S. Suppliers**

With the implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994, U.S. exports to Mexico began to receive reduced tariffs. A schedule was put in place to reduce tariff levels annually until 2003 when they will be phased out altogether. Each year, as the tariff levels decline, U.S. cheeses become more competitive. Tariff rates for fresh cheese were 12 percent in 2000 and 8 percent in 2001. All other cheeses were assessed a 6-percent tariff in 2000 and a 4-percent tariff in 2001. In comparison, tariffs for cheeses imported by other countries are over 20 percent. Additionally, NAFTA makes the documentation requirements and general access to the Mexican market easier for U.S. exporters.

After the recession of 1995/96, U.S. exporters still had difficulty being competitive despite the benefits of NAFTA. Canada was illegally subsidizing cheese exports through the use of its two-tiered export pricing system. The United States challenged this practice through a dispute-settlement panel of the World Trade Organization. The panel found in favor of the United States, and Canada was required to abide by the subsidy limits previously agreed to under the Uruguay Round of the 1994 General Agreements on Tariffs and Trade. Since this ruling in 1999, U.S. exports were able to regain its share of the market from the Canadians.

Cheese production has been increasing steadily in the United States each year. As a result, U.S. prices have decreased and in 2000, the price was low enough to be competitive with other imports to Mexico. U.S. production of cheese is expected to continue growing in 2001.

### **Successful Marketing Efforts Promoting U.S. Cheese**

The U.S. Dairy Export Council (USDEC) was established in 1995 as a nonprofit organization to assist U.S. dairy exporters and expand overseas exports of U.S. dairy products. USDEC and the U.S. dairy industry have been actively involved in the Mexican market since 1993. Their strategy has been to develop and expand relationships with the Mexican food industry focusing primarily on the retail and foodservice markets.

USDEC attributes much of the success in 2000 to the fact that U.S. exporters maintained a presence in the Mexican market even during the 1994 peso crisis and the 1995/96 recession. USDEC and their members' willingness to provide support even in times of low sales indicates a reliable supplier. For example, U.S. suppliers have opened offices in Mexico City providing more back up to their buyers. In the early years, USDEC worked mainly behind the scenes with educational seminars.

In 1998, USDEC launched an aggressive promotional campaign aimed at retail consumers. The U.S. Cheese Road Show features Monterey Jack, Mozzarella, Cheddar, Parmesan, and Blue cheese varieties in major supermarket chains around Mexico. Based on market research, USDEC has determined that these are the varieties of U.S. cheese most likely to appeal to Mexican consumers. Samples and recipes are offered that can be made with U.S. cheese. This show has grown steadily through the years, and U.S. cheeses have increased in popularity to the point where some stores now dedicate a special section just to U.S. cheeses. The shelf space that U.S. cheeses receive in supermarkets has increased 290 percent since the inception of the U.S. Cheese Road Show. The positive results from this retail promotion encourage USDEC to continue the U.S. Cheese Road Show in 2001.

However, as successful as this effort has been, the majority of U.S. cheese imported by Mexico is for the hotel and restaurant industry. USDEC has several promotional campaigns in popular fast food restaurant chains around the country. Menu items made with varieties of U.S. cheese are highlighted. In the coming year, USDEC will begin promoting U.S. cheeses in hotels and restaurants in resort areas. These programs, combined with USDEC's retail activities and promotions in Mexico, are developing an extremely strong foundation that will continue to expand U.S. cheese exports to this market.

### **Conclusion: U.S. Cheese Exports to Mexico Should Continue to Increase**

In conclusion, several factors came together to cause a dramatic increase in U.S. cheese exports in 2000: Mexico's booming economy, favorable market conditions, and USDEC's ongoing promotional activities. In 2001, imports of U.S. cheese are also forecast to increase 2 percent. The economy should continue to grow, albeit at a much slower pace. With further reductions of cheese tariffs under NAFTA, competitive U.S. cheese prices, and the elimination of illegal dumping by the Canadians, market conditions should remain favorable for U.S. exporters. And finally, USDEC will continue their market development activities promoting cheese in Mexico. So U.S. cheese exporters have a lot to smile about.

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