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Mexico

Dairy and Products

Semi Annual Report

2004

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Report Highlights:
On December 24, 2003, Mexico (SAGARPA) banned imports of live cattle and bovine products following the detection of Bovine Spongiform Encephalopathy (BSE) in Washington State. Mexico's ban on imports of live cattle and bovine products did not apply to milk, dairy products, embryos and semen. These products may be imported to Mexico without hindrance.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Mexico [MX1]
[MX]

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SECTION I. SITUATION AND OUTLOOK

Dairy Situation and Outlook: Fluid milk production for CY 2004 (Jan.-Dec.) is forecast to remain unchanged from our previous figure reaching nearly 10.3 MMT, or about 2.9 percent above the previous year's revised estimate. CY 2004 non-fat dry milk (NFDM) imports are forecast unchanged at 165,000 MT as domestic production of milk increases. Leche Industrializada CONASUPO (LICONSA) the parastatal company charged with distributing milk to the poor continues to increase its usage of domestically produced milk, thus dampening additional imports of NFDM. Modest growth in cheese imports is expected as Mexico's middle class consumers develop preferences for more U.S. style foods.

Due to the current ban on imports of live cattle because of the detection of a single case of BSE in Washington State late last year, Mexico has not imported dairy cattle from the United States since December 24, 2003. From the period January to December 24, 2003 Mexico imported 1,721 head of dairy cows from the U.S. an increase of 10.3 percent from the previous year's imports. Imports of other dairy products such as NFDM, fluid milk, semen, and embryos were unaffected by the ban.

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Fluid					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Cows In Milk	6800	6800	6800	6800	6850	6850
Cows Milk Production	9560	9560	9575	9842	10140	10140
Other Milk Production	140	140	140	140	140	140
TOTAL Production	9700	9700	9715	9982	10280	10280
Intra EC Imports	0	0	0	0	0	0
Other Imports	20	20	20	20	20	20
TOTAL Imports	20	20	20	20	20	20
TOTAL SUPPLY	9720	9720	9735	10002	10300	10300
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	4080	4080	4085	4352	4550	4550
Factory Use Consum.	5640	5640	5650	5650	5750	5750
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	9720	9720	9735	10002	10300	10300
TOTAL DISTRIBUTION	9720	9720	9735	10002	10300	10300

PS&D Dairy, Cheese
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Cheese					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0	0	0
Production	145	145	145	126	150	150
Intra EC Imports	0	0	0	0	0	0
Other Imports	65	65	70	82	75	85
TOTAL Imports	65	65	70	82	75	85
TOTAL SUPPLY	210	210	215	208	225	235
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	210	210	215	208	225	235
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	210	210	215	208	225	235
TOTAL Use	210	210	215	208	225	235
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	210	210	215	208	225	235

PS&D Dairy, Butter
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Butter					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0	0	0
Production	70	70	70	78	80	85
Intra EC Imports	0	0	0	0	0	0
Other Imports	37	37	40	51	40	40
TOTAL Imports	37	37	40	51	40	40
TOTAL SUPPLY	107	107	110	129	120	125
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	107	107	110	129	120	125
TOTAL Use	107	107	110	129	120	125
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	107	107	110	129	120	125

Note: Above data includes butter and butterfat.

PS&D Dairy, Milk, Nonfat Dry
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Milk, Nonfat Dry					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	42	42	37	37	27	27
Production	150	150	150	150	160	160
Intra EC Imports	0	0	0	0	0	0
Other Imports	132	132	145	157	165	165
TOTAL Imports	132	132	145	157	165	165
TOTAL SUPPLY	324	324	332	344	352	352
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	287	287	305	317	325	325
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	287	287	305	317	325	325
TOTAL Use	287	287	305	317	325	325
Ending Stocks	37	37	27	27	27	27
TOTAL DISTRIBUTION	324	324	332	344	352	352

PS&D Dairy, Dry Whole Milk Powder
(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Dairy, Dry Whole Milk Powder					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2002		01/2003		01/2004	
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	45	45	45	45	45	45
TOTAL Imports	45	45	45	45	45	45
TOTAL SUPPLY	45	45	45	45	45	45
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consum.	45	45	45	45	45	45
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	45	45	45	45	45	45
TOTAL Use	45	45	45	45	45	45
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	45	45	45	45	45	45

PRODUCTION OF FLUID MILK BY STATE (000 LITERS)

STATES	2002	2003	% Change
AGUASCALIENTES	394,987	406,836	2.9
BAJA CALIFORNIA	200,861	206,886	2.9
BAJA CALIFORNIA SUR	39,651	40,840	2.9
CAMPECHE	25,330	26,089	2.9
COAHUILA	1,058,713	1,090,860	3.0
COLIMA	37,847	38,982	2.9
CHIAPAS	320,919	330,546	2.9
CHIHUAHUA	801,955	826,399	3.0
MEXICO CITY	16,176	16,661	2.9
DURANGO	947,934	976,758	3.0
GUANAJUATO	647,465	667,274	3.0
GUERRERO	77,707	80,038	2.9
HIDALGO	415,024	427,474	2.9
JALISCO	1,712,562	1,764,324	3.0
MEXICO	486,967	501,576	2.9
MICHOACAN	311,917	321,274	2.9
MORELOS	17,500	18,025	3.0
NAYARIT	64,290	66,218	2.9
NUEVO LEON	40,254	41,461	2.9
OAXACA	144,787	149,130	2.9
PUEBLA	363,296	374,194	2.9
QUERETARO	215,828	222,302	2.9
QUINTANA ROO	4,974	5,123	2.9
SAN LUIS POTOSI	142,848	147,133	2.9
SINALOA	81,054	83,485	2.9
SONORA	148,106	152,549	2.9
TABASCO	96,041	98,922	2.9
TAMAULIPAS	27,887	28,723	2.9
TLAXCALA	150,908	155,435	2.9
VERACRUZ	705,721	727,278	3.0
YUCATAN	9,253	9,530	2.9
ZACATECAS	133,665	137,674	2.9
TOTAL	9,842,422	10,140,000	3.0

MEXICO'S MONTHLY FLUID MILK PRODUCTION

(000 LITERS)

MONTH	2003	2004*	% Change
JANUARY	752,669	755,099	0.3
FEBRUARY	746,395	772,970	3.5
MARCH	765,861	792,499	3.4
APRIL	760,898	787,520	3.4
MAY	807,390	834,161	3.3
JUNE	843,278	870,164	3.1
JULY	896,954	924,012	3.0
AUGUST	928,909	956,069	2.9
SEPTEMBER	919,438	946,568	2.9
OCTOBER	841,158	868,037	3.1
NOVEMBER	798,391	825,133	3.3
DECEMBER	781,081	807,768	3.4
TOTAL	9,842,422	10,140,000	3.0

SOURCE: Agriculture Secretariat (SAGARPA)

*SAGARPA's forecast figures for January to December 2004

AVERAGE MILK PRICES PAID TO PRODUCERS IN MEXICO
(PESOS PER LT.)

MONTH	2003	2004	VAR. %
January	3.04	3.37	10.8
February	3.04	3.38	11.1
March	3.08	3.36	9.0
April	3.08	3.50	13.6
May	3.08	3.50	13.6
June	3.20	N/A	N/A
July	3.20	N/A	N/A
August	3.23	N/A	N/A
September	3.25	N/A	N/A
October	3.23	N/A	N/A
November	3.32	N/A	N/A
December	3.37	N/A	N/A

SOURCE: Agriculture Secretariat (SAGARPA)

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

FLUID MILK

Production

Fluid milk production for CY 2004 (Jan-Dec) remains unchanged from our previous forecast of almost 10.3 MMT, as the larger modern dairies continue to improve their productivity. Production is expected to increase at a moderate rate into the foreseeable future. Mexico's fluid milk production estimate for CY 2003 increased due to technological improvements and better herd management practices during the hot summer months. Despite the steady growth in production, poor sanitation and genetics, inefficient cold storage, poor refrigeration, and a lack of infrastructure, particularly in smaller and dual-purpose cattle-operations, remain as major obstacles to large increases in production. Small and medium sized dairies continue to face financial problems as a result of high production costs and low productivity. A relatively low domestic raw milk prices and the lack of affordable financing for capital improvements discourage small and medium-sized dairy farms from expanding, particularly in central and southern Mexico.

Producer milk prices were 11.6 percent higher in the first five months of CY 2004 than the same period in CY 2003 as Mexico's food processing industry continues to expand the volume and variety of processed dairy products. Raw milk producer prices thus far in CY 2004 ranged between 3.36-3.50 pesos (US$0.30 - 0.31 per liter).

Consumption

Fluid milk consumption for CY 2004 remains unchanged from our previous forecast. Total consumption in CY 2003 was increased based on more recent information from industry sources.

Consumer prices in Mexico are currently 7.26 pesos per liter for pasteurized milk (US$0.65) and 8.07 per liter of UHT milk (US$0.72). According to private sources, LICONSA is distributing approximately 3.3 million liters of subsidized milk per day at the current price of 3.00 pesos per liter. Although LICONSA has increased utilization of domestic fluid milk significantly, its social program continues to rely mainly on NFDM imports. In CY 2003, LICONSA is estimated to have used 190 million liters of domestically produced raw fluid milk, 84 percent more than in CY 2002. This, however, will represent only 16 percent of LICONSA's total milk usage. Consumption of fresh fluid milk continues to be hampered by problems with sanitation, transportation, and processing capacity, but supplies and quality are improving.

According to government estimates, about 28 percent of milk is consumed raw in Mexico and 24 percent is consumed via the government's social program. The first case represents a potential health problem, and the second case a heavy monetary burden that discourages domestic milk producers who receive low prices. The consumption of pasteurized milk and dairy products is 48 percent of total consumption, however, due to urban expansion, this percentage is expected to increase as incomes rise.

Trade

Fluid milk imports for CY 2004 are forecast to remain unchanged. As in previous years, most of the imports will go to the border cities of northern Mexico and opportunities for sales beyond the border are limited by the cost and distance of transporting to other areas in Mexico.

Small dairy farms find it unprofitable to import heifers due to high domestic interest rates and the risks of accruing dollar debt. However, larger dairy farms continue to import live cattle to complement an expected modest increase in domestic cow numbers. According to Mexican trade data, of the total of 16,555 head of dairy cattle imported by Mexico in CY 2003, only 1,721 came from the United States before the detection of BSE in December 2003. Increased use of semen to improve dairy genetics is expected to continue in the future. The United States should continue to be the primary supplier.

Policy

The government's main objective is to encourage producers to improve efficiency and productivity. The reduction in imports of fluid milk and dairy products from previous years, particularly into northern Mexico, is much the result of increased domestic milk production. Shipments to Mexican border areas have also been affected by local governments' response to pressure from Mexico's domestic producers to discourage imports of U.S. retail-pack milk. These efforts have been aided by stricter enforcement by Mexican authorities of the labeling regulations, together with quality standards and food safety regulations, which have discouraged some U.S. exporters concerned about potential delays in clearing shipments.

Marketing

See dairy products marketing section at the end of this report.

CHEESE

Production

Cheese production for CY 2004 is forecast to remain unchanged from our previous forecast. CY 2003 cheese output is estimated lower as a result of more current industry information and higher cost of production. Production by commercial cheese processors, particularly those using imported non-fat dry milk, is increasing to meet growth in consumer demand as Mexicans increase their consumption of processed and restaurant products containing cheese.

Consumption

Cheese consumption during CY 2004 is forecast to increase compared to our previous forecast as a result of increasing demand from middle class consumers. Cheese consumption for CY 2003 is estimated lower reflecting updated industry data.

Trade

Cheese imports are expected to be higher in MY 2004 as consumers continue to develop preferences for non-Mexican cheeses. Mexico's economy is expected to rebound in late 2004, which should continue to foster demand for imported cheeses. MY 2003 imports are revised upward due to increased demand from fast food restaurants for variety of cheeses not produced in Mexico.

Policy

See dairy products policy section at the end of this report.

Marketing
See dairy products marketing section at the end of this report.

BUTTER

Production

All Mexican statistics on butter and butterfat production are combined. Butter and butterfat production for CY 2004 is estimated to increase marginally due to the expected increase in fluid milk output and improved returns to processors. The CY 2003 butter production estimate is revised upward due to increased availability of fluid milk and increased usage by LICONSA for reconstituting milk powder for the social program.

Consumption

Combined butter and butterfat consumption is estimated higher than our previous forecast for CY 2004 due to the expected increase by LICONSA's reconstitution of milk powder program for the poor. The estimate for CY 2003 is revised upward reflecting increased usage of butterfat in LICONSA's milk program.

Stocks

Consistent with past years, no stocks are estimated due to the lack of refrigerated storage space among producers and end users. Users such as bakeries, food processors, and LICONSA do not keep large stocks of butter.

Trade

Imports are forecast unchanged in CY 2004 due to increased domestic production. For CY 2003, the estimate is revised upward given the increased demand from the bakery and food processing sectors coupled with continued use by LICONSA for reconstituting milk powder with animal fat instead of palm oil.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

NON-FAT DRY MILK (NFDM)

Production

Mexican NFDM producers are not expected to significantly increase production in the short term due to limited processing facilities. Output forecast for CY 2004 is forecast to remain unchanged, however, it is slightly greater than the CY 2003 estimate given expectations that LICONSA will seek to maintain a minimal level of stocks to avoid making emergency purchases of milk powder on the international market.

Consumption

The consumption forecast for CY 2004 is unchanged from the previous forecast. The consumption estimate of NFDM for CY 2003 is revised upward as demand from cheese and other food processors increases. For CY 2002 the consumption figure reflects official data.

Stocks

The majority of product imported and produced domestically is used for further processing. LICONSA is the main holder of NFDM stocks. In recent years, LICONSA had tried to maintain larger stock levels to avoid imports during the early part of the calendar year when domestic milk production is highest. However, stock levels are expected to drop somewhat as LICONSA seeks to reduce storage costs while maintaining enough stocks to minimize imports during the first part of the calendar year.

Trade

Mexico continues to be far from reaching self-sufficiency in NFDM production because of limited domestic processing capacity. The import forecast for NFDM in CY 2004 reflects the expectation that LICONSA will continue to have access to greater volumes of domestic milk. For CY 2003, the NFDM import estimate is revised upward due to more current information from industry sources pointing to increased demand for NFDM from cheese and other dairy product processors.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

WHOLE MILK POWDER (WMP)

Production

Production for CY 2004 is forecast to remain unchanged from the previous year's figures.

Consumption

WMP consumption for CY 2004 is forecast to remain unchanged from the previous year's estimate due to expected stable demand caused by increased fluid milk output. The consumption estimate for CY 2003 also remains unchanged from our previous estimate due to steady demand. According to LICONSA, over 60 percent of the WMP and NFDM is consumed by the poor. LICONSA expects to continue opening new milk stores in proportion to population growth, as long as the government budget permits. LICONSA is currently distributing close to 3.3 million liters of reconstituted milk per day. LICONSA's subsidized milk prices are currently 3.00 pesos per liter (US$0.27/lt).

Stocks

Since production statistics for WMP are unavailable, and total imports of WMP are consumed by dairy-processors and LICONSA, stocks are not reflected in the PS&D table for WMP.

Trade

Mexico continues to be far from reaching self-sufficiency in WMP production because of limited domestic processing capacity. Imports are forecast unchanged in CY 2004 compared to our previous estimate due to modest gains in fluid milk production. Similarly, the CY 2003 import estimate is unchanged reflecting steady demand from the food-processing sector. The CY 2002 estimate reflects official data.

Policy

See dairy products policy section at the end of this report.

Marketing

See dairy products marketing section at the end of this report.

POLICY

With the exception of powdered milk, all U.S. exports of dairy products to Mexico are duty-free. Milk powder exports (NFDM and WMP) to Mexico are subject to a tariff-rate quota (TRQ), which will be phased out in 2008. Private companies bid for import permits (cupos) that allow them to import a specific quantity under the TRQ at zero duty. LICONSA is not subject to the TRQ and may import any quantity of milk powder at zero duty to meet its program needs.

MARKETING

The cooperator group that represents the US dairy industry in foreign markets is the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy product trade and use, including market intelligence on trade policy issues, organizing informational seminars for the Mexican trade, and developing promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer. Mexico is expected to continue as a significant importer of dairy products to augment domestic production. While imports are likely to consist primarily of bulk products such as NFDM, higher value products such as specialty cheeses and ice creams are also likely to find a home in Mexico's growing consumer class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

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