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Required Report - public distribution

Date: 5/24/2019
GAIN Report Number: MX9019

Mexico

Dairy and Products Semi-annual

High Demand Drives Greater Cheese Production and Imports

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Report Highlights:
Mexico's fluid milk production is forecast to continue its steady growth in 2019 although its dairy sector still requires imports of high quality and value-added ingredients to supply its processing industries. High demand for cheeses continue to drive domestic production and increased imports, with cheese imports likely to grow after the recent removal of retaliatory tariffs on U.S. cheeses and other agricultural products. Mexico's new presidential administration instituted new assistance programs to improve food security and increase self-sufficiency in fluid milk and other commodities.

Commodities:
Dairy, Milk, Fluid
Dairy, Cheese
Dairy, Butter
Dairy, Milk, Nonfat Dry
Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Production:

The 2019 forecast for fluid milk production is revised upward to 12.6 million metric tons (MT). The Mexican dairy industry predicts that domestic production will continue to increase at a steady growth of 1.7 percent in the coming year. Production is already demonstrating a strong start in 2019, as official government production data for the first three months of 2019 shows a two percent increase over the same period last year. The production for 2018 increased to 12.4 million MT based on official data.

Mexico's domestic production continues its steady increase because of efforts to improve the genetics of its dairy breeding cows and modernize the production chain. Imports of live dairy cattle (HS 01022901) increased by more than four percent in 2018 over the year before, almost all of which came from the United States. Stable and low grain prices are also supporting current production. Dairy cows used 16 percent of the feed produced in Mexico in 2018, according to the Mexican Feed Industry.

Jalisco is the main milk-producing state in Mexico, representing 20.3 percent of the total production, followed by the states of Coahuila, Durango, and Chihuahua.

Consumption:

For 2019, the forecast for domestic consumption remains relatively flat while factory use will continue to increase, with an overall consumption of 12.8 million MT.

In Mexico, half of all fluid milk goes into the processing industry for the production of yogurt, cheeses, and other products. Between 40-45 percent of consumption is of fluid drinkable milk, such as pasteurized, ultra-high temperature processed (UHT), bottled, or packaged milk. Unpasteurized, raw milk accounts for between 5-10 percent of consumption.

While urban populations in Mexico tends to consume more fluid milk than the recommended daily intake, consumption in the rural sector is below the daily recommendation. In general, the average per capita consumption of milk in Mexico is 132 liters per year, less than the United Nation's Food and Agricultural Organization (FAO)'s recommended yearly consumption of 190 liters per person.

As consumption of fluid milk is relatively flat, the Mexican dairy industry has begun to switch its focus from marketing and promotion of traditional milk consumption toward encouraging consumption of dairy products as a way to boost dairy intake and sales.

Trade:

The forecast for imports of fluid milk in 2019 is adjusted downward to 43,000 MT as continuing increases in domestic production are able to satisfy domestic demand. Final imports for 2018 were revised to 42,000 MT based on official trade data.

Although Mexico produces the majority of fluid milk for its own consumption, imports of fluid milk are still necessary to complement the domestic production to satisfy demand. Mexico imports about 30 percent of its fluid milk needs. The principal provider of fluid milk during 2018 continues to be the United States with almost the 100 percent of market share, with a small volume imported from France.

The forecast for exports of fluid milk in 2019 remains at 8,000 MT. During 2018, Mexico total exports were 7,000 MT, a 19 percent increase from the previous year although still down from its high level in 2016. The United States is the principal destination for Mexican milk exports (65 percent), followed by Guatemala (31 percent) and Cuba (2 percent).

Policy:

New Administration Programs Aim to Increase Self-Sufficiency and Improve Rural Incomes

The new Mexican President, Andrés Manuel López Obrador, has made improving the livelihoods of small agricultural producers in economically marginalized regions of Mexico a centerpiece of his administration. The administration created a number of new agricultural support programs to help achieve the goals of increasing rural incomes, improving food security, and self-sufficiency in production of certain commodities. In keeping with the administration's stated goals, these agriculture programs focus primarily on providing support to marginalized and small farmers instead of larger commercial operations, with special emphasis given to small producers in the southern and central states of Mexico. In the dairy sector, Mexican Secretary of Agriculture Victor Villalobos has stated that Mexico will be self-sufficient in fluid milk production by the end of the administration's six-year term.

Guaranteed Prices Program

As promised during his campaign, President López Obrador created a program to purchase five staple commodities (corn, beans, bread wheat, rice, and fluid milk) from small farmers at guaranteed above-market prices called the Guaranteed Prices Program (*Programa de Precios de Garantia*). The program is supposed to assist communities with less development by eliminating intermediaries through the direct purchase and commercialization of commodities. Mexico established a new government agency under the Ministry of Agriculture and Rural Development (SADER) called Food Security Mexico (SEGALMEX) to oversee the Guarantee Price program and to distribute the purchased commodities to poor Mexicans.

The announced price for a liter of fluid milk is 8.20 pesos (0.43 USD), although this is the maximum price producers can receive. The base price is 6.40 pesos per liter, although the purchase price can increase to 7.50 pesos/liter if the milk complies with a list of quality standards. If the milk meets the quality standards for a period of 52 weeks, the producer can receive a bonus of about 70 cents/liter, bringing the final price to 8.20 pesos per liter.

Social Milk Supply Program

The state-owned enterprise Liconsa will administer the Social Milk Supply Program, which aims to improve access to food by offering high quality and lost-cost milk to targeted beneficiary groups below a certain "line of wellness" or socioeconomic level. The program will offer up to four liters of milk per beneficiary a week at a subsidized price, up to a maximum of 24 liters per household. The milk will be offered through milk distribution centers (*Lecherias)*, small stores (those with limited goods storage), or through community stores operated by Diconsa, the government organization that supplies a basket of basic commodities to rural communities at below-market costs.

Dairy, Milk, Fluid	2017		2018		2019	
Market Begin Year	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6550	6550	6550	6550	6500	6500
Cows Milk Production	12121	12121	12281	12368	12380	12578
Other Milk Production	167	167	168	169	169	170
Total Production	12288	12288	12449	12537	12549	12748
Other Imports	42	42	43	42	44	43
Total Imports	42	42	43	42	44	43
Total Supply	12330	12330	12492	12579	12593	12791
Other Exports	6	6	7	7	8	8
Total Exports	6	6	7	7	8	8
Fluid Use Dom. Consum.	4174	4174	4183	4183	4185	4185
Factory Use Consum.	8150	8150	8302	8389	8400	8598
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	12324	12324	12485	12572	12585	12783
Total Distribution	12330	12330	12492	12579	12593	12791
(1000 HEAD), (1000 MT)						

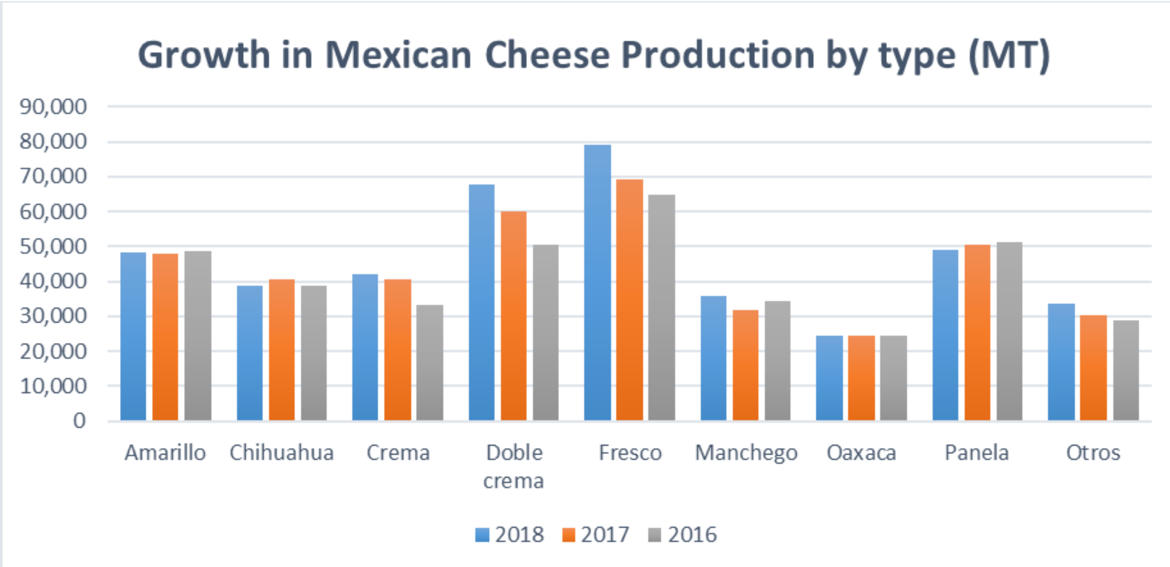
Note: A conversion rate of 1.03 kg was used to convert production and trade from liters into MT. Trade is defined at HS 0401.

Dairy, Cheese

Production:

The forecast for cheese production in 2019 is increased to 428,000 MT as continued demand drives higher levels of domestic production. Mexico's cheese production has shown remarkable growth in the last six years, with an average year-over-year growth of over six percent since 2012. Cheese production continues to be the main consumer of fluid milk and ingredients in the Mexican dairy sector. Production values for 2018 are revised to 419,000 MT based on official government numbers.

Mexican cheese production primarily consists of soft white traditional cheese types such as Fresco, Doble Crema, Panela, and Amarillo. Fresco and Doble Crema continue to dominate production, with production increasing by 15 and 13 percent, respectively, over 2017 volumes.



Source: SIAP (Boletin de Leche: octubre-diciembre 2018)

Consumption:

The forecast for cheese consumption in 2019 is increased to 541,000 MT because of increasing domestic production and higher volume of imports.

In Mexico, declines in milk consumption are being offset by increases in consumption of cheese and ice cream. Cheese is the most consumed dairy product in Mexico and the Mexican dairy industry expects the consumption to grow even more in the coming years. Cheese consumption is increasing in Mexico through the promotion and supply of cheese snacks, as consumers are looking for cheese snacks to provide protein and other nutrients in a fast and ready to eat format.

Trade:

The forecast for 2019 for cheese imports remains at 125,000 MT. The United States is the primary supplier of cheeses to the Mexican market, providing 79 percent of Mexico's total imports in 2018. The Netherlands's market share grew by more than 12 percent in 2018, comprising almost 8.5 percent of total Mexican cheese imports. Uruguay, New Zealand, Chile, and several European Union (EU) countries make up the remainder of the import market.

Imports of U.S. Cheese Increase Despite Retaliatory Tariffs

As previously reported, in response to measures imposed by the United States under Section 232, Mexico imposed retaliatory tariffs on $2.6 billion of U.S. agricultural exports to Mexico in July 2018 (see MX8028, MX8034, and MX8060 for more information). Tariffs of 20 and 25 percent were imposed on several types of U.S. cheeses. Imports of U.S. cheese spiked significantly in June 2018 before the imposition of the tariffs and then declined precipitously when the tariffs came into effect. However, U.S. cheese imports began to stabilize by October, finishing the year with a higher level of imports in December 2018 than at the same time the previous year. In fact, overall imports of U.S. cheese into Mexico in 2019 actually finished 5.5 percent higher than the amount of total U.S. imports in 2017.

Mexico removed its retaliatory tariffs on U.S. products on May 20, 2019, after the United States agreed to lift its Section 232 measures. The dairy industry expects imports of U.S. cheese will continue to grow now that the retaliatory tariffs have been lifted.

Source: U.S. Customs Data (Global Trade Atlas)

The 2019 forecast for cheese exports is adjusted to 12,000 MT based on the high value of exports in 2018. Mexican cheese exports to the United States jumped significantly in 2018, from 3,300 MT to more than 12,600 in a single year, an increase of 276 percent. Although the industry has stated it will continue to prioritize exports this year, it remains to be seen if Mexico will continue exporting cheese at this level to the United States. Mexico also exports smaller but significant amounts of cheese to other South and Central American countries such as Chile, Guatemala, and Peru.

Policy:

Mexico Publishes Final Regulations for Dairy Products

On January 31, 2019, Mexico published three new official regulatory norms (*Norma Oficial Mexicana*, or NOMs) for cheese, milk, powder, and yogurt in their Federal Register (*Diario Oficial*). The standards for milk powder and cheese enter into force one year after publication; yogurt standards enter into force 180 days after publication.

These standards aim to improve quality and provide standardization in the dairy sector. The milk powder standard includes chemical specifications and labeling requirements and requires a conformity assessment done by a registered laboratory. The Department of Standards (DGN) in the Ministry of

Economy (*Economia*) lists procedures for registration of domestic and foreign testing laboratories and submission of test reports on its website. Although DGN outlines the procedures for submitting domestic test reports, they have yet to detail procedures for how to submit test reports for imported products. The cheese standard also details physical and chemical specifications and labeling requirements. DGN convened a working group in March 2019 to create a conformity assessment procedure to ensure compliance with the standard. When a draft conformity assessment procedure is completed, it will be published for a public comment period.

Mexico Diversifies its Trade through New Agreements

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

On December 30, 2018, the CPTPP entered into force for Mexico and five of the other signatory countries (Australia, Canada, Japan, New Zealand, and Singapore). In the agreement, Mexico agreed to several tariff rate quotas (TRQs) for dairy products that will be implemented over 11 years: milk and cream (375,000 MT), milk powder (42,000 MT), cheeses (6,500 MT), dairy preparations (2,500 MT), butter (4,000 MT), other milk related products not specified (2,000 MT), condensed milk (1,500 MT), and evaporated milk (750 MT).

EU-Mexico Free Trade Agreement

The EU and Mexico announced an agreement in principle of their free trade agreement in April 2018, although technical negotiations continue. When the agreement is finally ratified by both parties, the EU will receive tariff-free market access to the Mexican market for 25,000 MT of cheeses (20,000 MT for mature cheeses and 5,000 MT for fresh cheeses) over a period of 5 years, in addition to access for 2,500 MT of butter over 7 years, 10,000 MT of dairy blends, and 50,000 MT of skim milk powder. The agreement includes protection for some EU geographical indications (GIs) such as Muenster, Neufchatel, Fontina, Asiago, and Gorgonzola, while other types such as Parmesan and Feta will have certain restrictions. Mexico will receive unrestricted duty free access into the EU for its dairy products.

Dairy, Cheese	**2017**		**2018**		**2019**	
Market Begin Year	**Jan 2017**		**Jan 2018**		**Jan 2019**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	0	0	0	0	0	0
Production	396	396	410	419	422	428
Other Imports	122	122	122	123	125	125
Total Imports	122	122	122	123	125	125
Total Supply	518	518	532	542	547	553
Other Exports	7	7	7	16	8	12
Total Exports	7	7	7	16	8	12
Human Dom. Consumption	511	511	525	526	539	541
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	511	511	525	526	539	541
Total Use	518	518	532	542	547	553
Ending Stocks	0	0	0	0	0	0
Total Distribution	518	518	532	542	547	553
(1000 MT)						

Dairy, Butter

Production:

The 2019 production forecast for butter and butterfat (*grasa butirica*) is revised upwards to 230,000 MT based on the domestic industry's modest but steady growth in production to meet the demand from the bakery and confectionary sectors. Domestic production showed greater than expected growth in 2018 because of a jump in butter (*mantequilla*) production, so 2018 values were increased based on official data.

Consumption:

The forecast for butter consumption for 2019 decreased slightly to 252,000 MT as overall consumption of butter continues to slow as a result of declining household consumption. However, the bakery and confectionary sectors continue to drive the demand for butter and butterfat for use in processing.

Trade:

The 2019 import forecast for butter (HS 040510) and butterfat (HS 040590) is revised to 34,000 MT, based on a continuing need for butter and butterfat by the processing sector. While imports of butter from the United States showed an increase of 5 percent over the previous year, imports of butterfat continue to decline. New Zealand continues to be the most price-competitive source of butterfat, accounting for 79 percent of Mexico's imports, although its butterfat shipments to Mexico declined by more than 39 percent in 2018 from the previous year. As a result, U.S imports of butterfat in 2018 gained additional market share, capturing 14 percent of the market as it more than doubled its volume of shipments.

The 2019 exports forecast is changed to 12,000 MT as Mexico continues to export its excess production. Butterfat exports to the United States grew by more than 26 percent in 2018, while exports of butter grew to Cuba, the United States, Italy, and Colombia.

Dairy, Butter	**2017**		**2018**		**2019**	
Market Begin Year	**Jan 2017**		**Jan 2018**		**Jan 2019**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	0	0	0	0	0	0
Production	223	223	226	228	229	230
Other Imports	49	49	30	32	30	34
Total Imports	49	49	30	32	30	34
Total Supply	272	272	256	260	259	264
Other Exports	8	8	10	11	5	12
Total Exports	8	8	10	11	5	12
Domestic Consumption	264	264	246	249	254	252
Total Use	272	272	256	260	259	264
Ending Stocks	0	0	0	0	0	0
Total Distribution	272	272	256	260	259	264
(1000 MT)						

Dairy, Skim Milk Powder (SMP)

Production:

The 2019 forecast for SMP production is revised downward slightly to 44,000 MT, as competition for fluid milk in the production of other products, such as cheese, restricts the amount of milk powder that can be produced domestically. The lack of drying facilities also constrains the possible volume of Mexican milk powder production. Although the most recent drying facility in Jalisco was inaugurated in early 2019, construction of the facility took five years. Additional drying capacity is unlikely to be built quickly, making imported milk powder likely to continue being more cost-effective.

Consumption:

The consumption forecast for 2019 is 337,000 MT, as consumption is expected to return to more normal levels after a decline in 2018. However, consumption levels in the coming year will depend upon Mexico's volume of exports to other countries.

In Mexico, the SMP market is driven primarily by the growing processing, bakery, and confectionery foods industries. SMP is easier and more efficient to transport than fluid milk and serves as a more economical source of nonfat dairy solids for processing. Dairy processors are diversifying their usage of SMP in products such as coffee creamers, yogurts, and ice cream and advertising their products as "high protein" to capitalize on consumers' demand for healthy sources of proteins and essential amino acids.

Trade:

The forecast for imports of SMP in 2019 is adjusted downward to 368,000 MT but still reflects the continuing demand for milk powder for the domestic processing industry. Imports in 2018 finished the year higher than expected at 360,000 MT based on official trade data.

As the main supplier of SMP for the Mexican market, the United States increased its SMP shipments by 24 percent over the previous year. The United States supplied 97 percent of Mexico's needs, retaking market share that it lost to Canada in 2017.

Mexico's market for dairy ingredients is price sensitive, making imported SMP a more cost-effective option for the processing industry and other users of milk powders. The cost of drying milk on average costs at least a peso per liter more than the selling price of fluid milk. Coupled with the lack of drying infrastructure, producers tend to prefer importing milk powder. As a result, Mexico will continue to depend on imports to satisfy the domestic demand. Approximately 90 percent of the skim powder milk used in Mexico is imported, making Mexico the number one importer of SMP in the world.

During 2018, Mexican exports of SMP jumped to 105,000 MT, driven by its high volume of exports to Venezuela. As noted in the Annual Dairy Report (MX8060), the 2019 export forecast of 75,000 MT will depend if Mexico continues exports to Venezuela in the coming year. Exports to the United States, Honduras, Panama, and Belize decreased overall in 2018.

Dairy, Milk, Nonfat Dry	**2017**		**2018**		**2019**	
Market Begin Year	**Jan 2017**		**Jan 2018**		**Jan 2019**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**

Beginning Stocks	0	0	0	0	0	0
Production	49	49	43	43	45	44
Other Imports	331	331	355	360	375	368
Total Imports	331	331	355	360	375	368
Total Supply	380	380	398	403	420	412
Other Exports	29	29	65	105	75	75
Total Exports	29	29	65	105	75	75
Human Dom. Consumption	351	351	333	298	345	337
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	351	351	333	298	345	337
Total Use	380	380	398	403	420	412
Ending Stocks	0	0	0	0	0	0
Total Distribution	380	380	398	403	420	412
(1000 MT)						

Dairy, Whole Milk Powder (WMP)

Production:

The 2019 production estimate for WMP is revised to 122,000 MT, reflecting an overall trend of decreasing production. The production for 2018 was adjusted downward to 119,000 MT based on government production data. As described in the SMP section, production of WMP faces competition from other dairy products for fluid milk supply, as well as high production costs for drying.

Consumption:

The 2019 consumption forecast is revised down to 105,000 MT, as consumption is decreasing along with declining domestic production.

Although SMP still has greater demand in the processing sector, WMP is increasingly used by the dairy industry in innovative drinkable products, like fortified milk or extra protein milk. This sector of the market is being promoted as part of the dairy industry's efforts to promote consumption of new types of dairy products. The Mexican agency Liconsa is a major user of WMP, as it is a direct substitute for fluid milk. WMP is also easier to transport and has a shelf life of up to six months.

Trade:

The import forecast for 2019 is 8,000 MT, as slowing domestic production increases the need for imported product. The 2018 value was increased to 7,000 MT based on trade data.

The 2019 export forecast remains at 25,000 MT, representing a small increase even as export volumes return to normal levels after the 2017 spike in exports to Venezuela. Guatemala and the United States are the main destinations for exports, with 75 percent and 14 percent of the share respectively.

Dairy, Dry Whole Milk Powder	2017		2018		2019	
Market Begin Year	**Jan 2017**		**Jan 2018**		**Jan 2019**	
Mexico	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Beginning Stocks	0	0	0	0	0	0
Production	139	139	130	119	135	122
Other Imports	4	4	6	7	7	8

Total Imports	4	4	6	7	7	8
Total Supply	143	143	136	126	142	130
Other Exports	33	33	23	23	25	25
Total Exports	33	33	23	23	25	25
Human Dom. Consumption	110	110	113	103	117	105
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	110	110	113	103	117	105
Total Use	143	143	136	126	142	130
Ending Stocks	0	0	0	0	0	0
Total Distribution	143	143	136	126	142	130
(1000 MT)						

FAS/Mexico Website: *We are available at https://www.fas.usda.gov/regions/mexico or readers may visit the FAS headquarters' homepage 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 websites 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.*