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Mexico

Dairy and Products Annual

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Report Highlights:
Growth in fluid milk, cheese, butter and non-fat dry milk for 2010 and 2011 production are signs of recovery for the Mexican economy. However, imports of non-fat dry milk (NFDM) and butter are expected to decline in 2010 because of a stronger peso-dollar exchange, large availability of domestic fluid milk and a decline of imports by LICONSA. Meanwhile U.S. cheese exports are expected to be restricted due to retaliatory duties. In 2010, consumption of fluid milk and cheese has recovered mainly due to low-income consumers' purchases. In contrast, butter and non-fat dry milk consumption has declined in 2010.

Executive Summary:

After several difficult years, 2011 marks the beginning of a recovery for the dairy sector, although the Mexican Government (GOM) and Congress will continue to face difficult choices on how to support the Mexican dairy sector. Furthermore, LICONSA [1] will continue reducing its imports of dry milk.

The GOM continues reinforcing its legal authority to regulate the dairy market; it recently published new regulation NOM-243-SSA1-2010. The objective of this NOM is to establish sanitary and nutritional requirements for fluid milk, milk formula, combined milk products and dairy products, effective November 26, 2010. In addition, the GOM published an amendment to NOM-051, food and non-alcoholic beverage labeling requirements, which is more in line with international standards. Finally, Mexico recently amended the list of products which are subject to retaliatory duties due to the United States' failure to comply with the trucking chapters of the North American Free Trade Agreement (NAFTA). As a result, the list now contains four HTS codes for U.S. chesses.

Dairy products are basic ingredients in the Mexican diet; however, domestic production does not meet demand. Thus, Mexico will continue importing dairy products, principally from the United States; although at lower levels especially for non-fat dry milk.

Data included in this report is not official USDA data. Official USDA data is available at: http://www.fas.usda.gov/psd

[1] LICONSA is a state owned company under the Secretariat of Social Development. LICONSA is responsible for distributing milk to the poor.

Commodities:

Dairy, Milk, Fluid

Production:

The cows-in-milk number is forecast to increase 1.4 percent in 2011 based on industry estimates. For 2010, the cows-in-milk number is revised lower to reflect industry estimates and mainly due to the negative effects of the slow recovery of the economy. The statistics for dairy cows herd composition are as follows; 49 percent of the cows are for milk production, 41 percent are for dual-purpose (farms featuring dual-purpose breeds), and 10 percent are for family or subsistence dairy.

The production of milk will continue to grow steadily. Fluid milk production for 2011 is forecast to increase 1.4 percent; however, the increase is restricted due to continued low domestic prices paid to producers. Furthermore, producers lack credit in order to invest in infrastructure improvements such as genetics and better herd management practices, especially among the small to medium size producers. The fluid milk production estimate for 2010 is revised up to reflect official data[1]. This increase is the result of better milk yield and increased production of the two largest milk products companies (Lala and Alpura). Milk production for 2009 is revised slightly down to reflect official data.

According to the industry sources, the following factors continue to weigh on the Mexican dairy sector: the financial crisis, peso devaluation, lack of credit, and the imports of competitively-priced milk are some of the reasons why many small milk producers have gone out of business. Additionally, the cost of producing a liter of milk is between 4.60 to 5.20 pesos per liter; however, buyers will only pay 3.70 pesos per liter, resulting in many of the small producers halting production. Besides, it is estimated that 68 percent of the cost of milk production is linked to animal feed. In order to increase their competitiveness Mexican dairy producers will need to reduce this percentage.

Given these facts, many of the large dairies are investing in better genetics and implementing better herd management practices to improve productivity. For example, Lala and Alpura believe their sales could increase in 2011 by almost 20 percent for all dairy products.

LICONSA's price paid to dairy producers is used as domestic reference price, similar to the U.S. Type I milk price. Thus, many small and medium producers supply milk to LICONSA a market of last resort. According to some producers, selling milk to LICONSA has provided producers with an opportunity to maintain their business during the recent economic crisis. LICONSA's average weighted price for 2009 was 4.46 pesos per liter (4.20 base price plus a quality bonus). For 2010, the average weighted price is expected to be 4.60 pesos per liter. LICONSA's pricing for 2011 is unknown at the time of publication.

In 2010, according to the Mexican feed industry sources, total feed production is forecast at 27.3 million tons, with 16.6 percent of total feed production distributed to the dairy cattle sector (4.5 million tons). Fifty-six percent of this feed is expected to be produced by plants of vertically-integrated enterprises with the other 44 percent produced by commercial feed millers. There are 250 vertically-integrated enterprises and 150 commercial feed millers.

Table 1. Mexico: Production of Feed and Feed Ingredients (000 Metric Tons)

Calendar Year:	2006	2007	2008	2009	Forecast 2010
Compound Feed Capacity	32,900	33,500	34,000	34,000	34,000
Total Compound Feed Produced	25,600	26,100	26,600	27,000	27,300
---- by integrated producers	16,158	16,435	16,751	16,997	17,200
---- by commercial producers	9,442	9,665	9,849	10,003	10,100
Marketing Year: (000 Metric Tons) Feed Production by type of animal	**2006**	**2007**	**2008**	**2009**	**Forecast 2010**
Poultry	13,400	13,500	13,728	14,039	14,200
Pork	3,866	4,000	4,030	4,035	4,050
Beef Cattle	2,395	2,500	2,550	2,600	2,652
Dairy Cattle	4,322	4,400	4,503	4,504	4,543
Aquaculture	205	220	240	250	268

Source: National Council of feed producers and animal nutrition.(Consejo Nacional de Fabricantes de Alimentos Balanceados y de la Nutricion Animal, A.C.)

[1] SIAP-SAGARPA: The Agro-food and Fishery Information Service, Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA).

Table 2. Mexico: Total fluid milk production by State, calendar year 2006-2009 and January-August 2009-2010, in thousand liters.

STATE	2006	2007	2008	2009	January to August		% Change	
					2009*	2010**	09/08	Jan - Aug 10/09
AGUASCALIENTES	383,658	375,401	370,399	367,171	244,090	246,462	-1.3%	1.0%
BAJA CALIFORNIA	166,868	207,915	193,422	179,795	120,820	115,755	-7.0%	-4.2%
BAJA CALIFORNIA SUR	44,634	43,150	46,451	46,104	30,759	29,176	7.7%	-5.1%
CAMPECHE	34,241	35,517	35,029	36,271	21,244	24,056	-1.4%	13.2%
COAHUILA	1,247,356	1,286,281	1,363,762	1,282,618	900,906	824,763	6.0%	-8.5%
COLIMA	39,039	36,146	36,525	32,349	13,878	15,188	1.0%	9.4%
CHIAPAS	327,138	353,085	372,249	366,393	231,333	255,808	5.4%	10.6%
CHIHUAHUA	808,641	817,919	926,222	923,053	618,806	645,484	13.2%	4.3%
DISTRITO FEDERAL	13,138	10,058	12,322	13,652	9,172	9,144	22.5%	-0.3%
DURANGO	1,014,535	1,019,227	1,036,581	959,716	638,081	656,954	1.7%	3.0%
GUANAJUATO	673,007	674,660	684,202	761,759	505,267	518,288	1.4%	2.6%
GUERRERO	81,868	82,001	81,552	84,157	50,954	52,861	-0.5%	3.7%
HIDALGO	445,465	460,773	452,977	439,361	296,530	284,868	-1.7%	-3.9%
JALISCO	1,697,486	1,793,579	1,855,362	1,900,343	1,212,236	1,254,873	3.4%	3.5%
MEXICO	476,231	478,211	464,573	464,704	290,674	299,460	-2.9%	3.0%
MICHOACAN	328,404	328,185	329,079	331,909	211,989	212,413	0.3%	0.2%
MORELOS	18,551	21,105	18,809	20,901	13,410	13,996	-10.9%	4.4%
NAYARIT	64,506	64,536	61,974	60,130	38,504	39,111	-4.0%	1.6%
NUEVO LEON	39,473	41,432	39,909	40,586	27,602	26,103	-3.7%	-5.4%
OAXACA	140,720	142,795	145,213	146,406	90,031	90,355	1.7%	0.4%
PUEBLA	367,963	384,707	384,285	395,211	267,096	269,573	-0.1%	0.9%
QUERETARO	198,488	200,835	195,791	192,435	127,911	128,387	-2.5%	0.4%

QUINTANA ROO	5,250	5,642	5,623	5,829	3,856	3,656	-0.3%	-5.2%
SAN LUIS POTOSI	147,591	140,630	141,828	132,285	86,490	86,503	0.9%	0.0%
SINALOA	82,067	88,633	93,779	95,943	67,928	69,162	5.8%	1.8%
SONORA	142,052	137,780	134,921	126,496	85,372	89,233	-2.1%	4.5%
TABASCO	115,617	110,603	110,694	111,533	83,147	83,120	0.1%	0.0%
TAMAULIPAS	31,520	29,224	30,209	32,326	21,273	18,652	3.4%	-12.3%
TLAXCALA	99,158	110,258	110,924	120,356	79,413	76,028	0.6%	-4.3%
VERACRUZ	681,809	692,754	697,288	708,230	470,127	480,757	0.7%	2.3%
YUCATAN	6,769	5,557	5,608	4,366	2,846	2,334	0.9%	-18.0%
ZACATECAS	165,309	167,383	163,293	166,655	103,618	108,584	-2.4%	4.8%
NACIONAL	**10,088,551**	**10,345,982**	**10,498,994**	**10,549,038**	**6,965,357**	**7,031,110**	**1.5%**	**0.9%**
Lagunera Area /1	2,122,092	2,205,498	2,255,272	2,090,707	1,442,431	1,386,395	2.3%	-3.9%

Source: SIAP-SAGARPA: The Agro-food and Fishery Information Service, Secretariat of Agriculture, Livestock, Rural Development, Fishery and Food (SAGARPA)

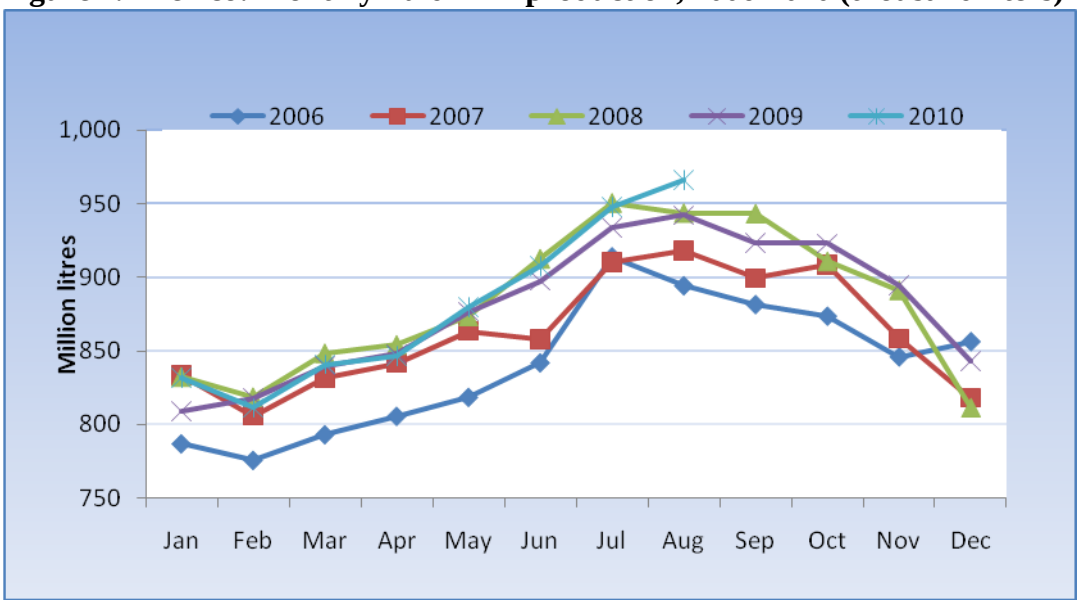
*SAGARPA's definitive figures for 2009

*SAGARPA'S preliminar figures for 2010

1/ Durango and Coahuila region

Highlighted states/area are the top fluid milk producers

Figure 1. Mexico: Monthly fluid milk production, 2006-2010 (thousand liters)



Consumption:

In 2011, total fluid milk consumption (domestic and factory use) is forecast to increase slightly (1.4 percent) relative to 2010. Consumption levels will recover in part due to the recovery of consumers' purchasing power after the economic downturn.

Fluid milk continues to be perceived as a healthier, stronger and cheaper product as compared to other dairy processed products. In addition, the availability of fluid milk has resulted in increased consumption among the older population and lactose-intolerant individuals.

Fluid milk consumption for 2010 is revised up 2.7 percent compared to consumption in 2009 as a consequence of higher production, including powdered milk.

As previously reported, LICONSA continues to decrease its dependence on non-fat dry milk (NFDM) imports and is replacing these imports with domestic purchases of milk. In 2009, LICONSA bought 640 million liters of domestically-produced milk (5 percent more than 2008). For 2010, the Mexican government continues promoting local (65 percent) versus imported milk (35 percent). Officially, it is unknown if these activities will continue into 2011, although it is highly likely these efforts will continue.

The total consumption estimate for 2009 is revised down due to higher-than-expected effects of the economic crisis on milk consumption.

According to industry estimates for 2009, approximately 83 percent of domestic fluid milk is purchased by the industry and 6 percent is used by LICONSA to produce different dairy products (including the variety of milk presentations such as light, nonfat, UHT, etc.), with the remainder being consumed locally. In addition, industry sources estimate that 66 percent of milk is consumed as fluid milk and the rest (34 percent) is consumed as dairy products.

Trade:
Mexico will continue to be an attractive market for U.S. exporters since Mexico is a deficit milk producer. While Mexican milk production has increase at an average of 1.45 percent annually over last nine years, the dairy processing sector has increased at an average of 4.5 percent over the same period, while the population has increased 11 percent. Thus, Mexico will still have to supplement domestic production with imports, principally milk powder, due to easy of transportation and price.

Fluid milk imports for 2011 are forecast to remain at 2010 levels because of higher fluid milk price compared to those in 2009 and 2008. For 2010, fluid milk imports are revised down due to higher imported prices resulting from the peso devaluation. This new reported level is lower than the 2008 level. The 2009 fluid milk import estimate remains unchanged and reflects official data.

The United States is the primary supplier of fluid milk to Mexico. In 2009, 92.5 percent of the total imports were from the United States; this level is higher than the 2008 level (81 percent). Even though U.S. fluid milk exports to Mexico in 2010 and 2011 are expected to stagnate, they will not register a reduction like those coming from Uruguay (18 percent) or Argentina (40 percent), the second and third suppliers respectively.

Stocks:
No stocks are held due to the lack of refrigerated storage space among producers and end users. End users maintain just-in-time inventories for those products which enter value-added processes or further processing lines.

Production, Supply and Demand Data Statistics:

PSD&D Table Country:	Mexico								
Commodity:	Dairy, Milk, Fluid								
	2009 Revised			2010 Estimated			2011 Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Market Year Begin	Jan-09			Jan 2010			Jan 2011		
Cows In Milk	6,400	6,400	6,400	6,600	6,600	6,560			6,650
Cows Milk Production	10,910	10,910	10,866	11,010	11,010	11,176			11,330
Other Milk Production	171	171	170	166	166	166			170
Total Production	11,081	11,081	11,036	11,176	11,176	11,342			11,500
Other Imports	45	45	45	50	50	46			46
Total Imports	45	45	45	50	50	46			46
Total Supply	11,126	11,126	11,081	11,226	11,226	11,388			11,546
Other Exports	5	5	5	6	6	9			11
Total Exports	5	5	5	6	6	9			11

Fluid Use Dom. Consum.	4,290	4,290	2,021	4,360	4,360	2,276			2,307
Factory Use Consum.	6,831	6,831	9,055	6,860	6,860	9,103			9,228
Feed Use Dom. Consum.	0	0	0	0	0	0			0
Total Dom. Consumption	11,121	11,121	11,076	11,220	11,220	11,379			11,535
Total Distribution	11,126	11,126	11,081	11,226	11,226	11,388			11,546

Commodities:

Dairy, Cheese

Production:

As a result of consumer-income recovery and the availability of domestic fluid milk, 2011 cheese production is forecast to increase 1.2 percent over 2010. Estimates for 2010 are revised approximately 1 percent higher than 2009 levels. Factors influencing 2010 production are the continued preference to consume inexpensive cheeses such as yellow, panela and fresh cheese. However, aged cheese production is expected recover this year. Mexican aged cheese production will be supported by the recovery of consumers' incomes and helped by the recent addition of retaliatory duties imposed on imports of U.S. aged cheeses. In addition, increased demand within the restaurant sector will lead to more commercial cheese processors increasing production.

Output figures for 2009 are adjusted slightly up and now stand at 242,000 MT. Estimates include fresh cheese production (fresh, double cream, oaxaca, and panela cheeses), which represent approximately 56 percent of the total. The remainder is aged cheese production (yellow, chihuahua and manchego).

A change in cheese production is being adopted in Mexico. Some cheese manufacturers have begun to use whey obtained from fresh cheese production (principally panela, fresh and oaxaca). This presents an opportunity for cheese manufacturer to capture more profit and reduce environmental contamination. Normally whey is discarded and results in a profit lost for cheese manufactures. On average, 10 liters of milk are needed to produce a kilogram of cheese; thus, using whey is a cost-effective process to obtain more profit.

Consumption:

Cheese consumption is forecast to increase only 0.6 percent for 2011, mainly due to greater demand from lower-middle- and low-income consumers of fresh cheese; however, the consumption among high-middle- and high-income consumers is not expected to increase according to industry sources. Cheese consumption for 2010 is revised up from the previous estimate and is 2.6 percent higher than the consumption for 2009. This increase is the result of more purchases due to the recovery of consumers' income.

It is expected that in 2010 only 25 percent of cheese demand will be covered by imports. In contrast, 27 percent of cheese consumption was imported in 2008 and 23 percent in 2009. More cheese demand is being met by domestically-produced fresh cheeses as cheese manufacturers become more efficient in producing fresh cheeses for the domestic market. In addition, consumer preferences are more adapted to domestically-produced cheeses (panela, fresh and oaxaca).

Trade:
Cheese imports for 2011 are expected to maintain the same level as 2010 due to retaliatory duties imposed by the Government of Mexico (GOM) on four HTS codes of cheese (see table 3). Despite duties becoming imposed on August 19, 2010, cheese import estimates for 2010 are revised up due to higher flow of trade occurring in the first eight months of the year, although a decline has occurred in those items with retaliatory duty since August. Industry sources state that in many cases retaliatory duties payments are split between the exporter and the importer in order to diminish the impact on consumers. Imports for 2009 remain unchanged and reflect official data.

Aged cheese is the main cheese import, although the new retaliatory duties and the volatility of the exchange rate have resulted in these cheeses being more expensive and might result in suppliers looking for new sources.

In contrast, cheese exports for 2011 are expected to increase 20 percent compared to 2010 levels according to industry data. Figures for 2010 are revised up as more medium-size companies are exporting cheese principally to South America. More than 50 percent of the exported volume corresponds to to the HTS code 0406.90, Cheese, nesoi, including Cheddar and Colby.

Table 3. Mexico: New tariffs for cheese imported from the United States

HTS code	Description	New tariff
0406.10.01	Fresh (Unripened or Uncured) Cheese, Including Whey and Curd	25%
0406.30.99	Processed cheese not grated or powdered. Other	25%
0406.90.04	Cheese and curd. Other cheese. Hard or semi-hard, containing by weight of fat exceeding 40%: only Parmegiano-Reggiano or Grana, containing by weight of water in non-fatty matter exceeding 47%; only Danbo Edam, Fontal, Fontina, Fynbo, Gouda, Havarti, Maribo, Samsoe, Esrom, Italic, Kernhem, Saint-Nectaire, Saint-Paulin and Taleggio, with a weight of water content in non-fatty matter exceeding 47 % but not exceeding 72%	20%
0406.90.99	Cheese and curd. Other cheese	25%

Production, Supply and Demand Data Statistics:

PSD&D Table Country:	Mexico								
Commodity:	Dairy, Cheese								
	2009 Revised			2010 Estimated			2011 Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Market Year Begin	Jan-09			Jan 2010			Jan 2011		
Beginning Stocks	0	0	0	0	0	0			0
Production	240	240	242	240	240	244			247
Other Imports	73	73	73	75	75	80			80
Total Imports	73	73	73	75	75	80			80
Total Supply	313	313	315	315	315	324			327
Other Exports	4	4	4	4	4	5			6
Total Exports	4	4	4	4	4	5			6
Human Dom. Consumption	309	309	311	311	311	319			321
Other Use,	0	0	0	0	0	0			0

Losses									
Total Dom. Consumption	309	309	311	311	311	319			321
Total Use	313	313	315	315	315	324			327
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	313	313	315	315	315	324			327

Commodities:

Dairy, Butter

Production:

Statistics for butter and butterfat production are combined in the PS&D table [1] .

Butter (and butterfat) production for 2011 is forecast at 175,000 MT, an increase of 1.2 percent over the new 2010 estimate. This is due to the increase in fluid milk and nonfat milk production resulting in higher butter oil and butterfat production. For 2010, the butter production estimate is revised up, mainly because trends show a higher-than-expected domestic baking and confectionary industry demand after a decline due to the international economic crisis. Production for 2009 is adjusted up 4.9 percent from the previous estimate in order to reflect official data. This increase was supported by higher domestic demand as result of expensive imports due to peso devaluation.

[1] See Semi Annual report May 2009 for a complete explanation of butter statistics.

Consumption:

Combined butter and butterfat consumption for 2011 is forecast to increase 2.5 percent after a decline in 2010 of 8.9 percent. The estimate for 2009 is revised down reflecting a contraction in imports, which resulted from a decline in usage by the baking, confectionary and food processing industries whose imported raw material suffered due to a price increase because of the peso devaluation.

Trade:

Imports **[1]** are forecast to increase nearly 10 percent in 2011, reaching 34,000 MT, compared to the 2010 revised estimate of 31,000 MT. Imports for 2010 are expected to decrease 41.5 percent compared to the 2009 estimates due to the economic situation and relatively higher domestic butter production. Imports for 2009 are revised down to reflect official data. This occurred due to expanded domestic production of fluid milk and higher import prices due to peso devaluation; however, the new estimate for 2009 is higher than the 2008 level.

For 2009, New Zealand was the principal supplier of butterfat to Mexico (69 percent of total imports), followed by the United States (14 percent) and Australia (10 percent).

[1] Import data includes butter and butter oil (HS codes 0405.1001, 0405.1099, 0405.9001, and 04059099). Butter oil imports are reported in butterfat equivalent (1 kg butter oil equals 1.25 butterfat).

Production, Supply and Demand Data Statistics:

PSD&D Table Country:	Mexico								
Commodity:	Dairy, Butter								
	2009 Revised			2010 Estimated			2011 Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Market Year Begin	ene-09			Jan 2010			Jan 2011		
Beginning Stocks	0	0	0	0	0	0			0
Production	163	163	171	170	170	173			175
Other Imports	74	74	53	76	76	31			34
Total Imports	74	74	53	76	76	31			34
Total Supply	237	237	224	246	246	204			209
Other Exports	0	0	0	0	0	0			0
Total Exports	0	0	0	0	0	0			0
Domestic Consumption	237	237	224	246	246	204			209
Total Use	237	237	224	246	246	204			209
Ending Stocks	0	0	0	0	0	0			0
Total Distribution	237	237	224	246	246	204			209

Commodities:

Dairy, Dry Whole Milk Powder

Production:

The production figures for NFDM include both whole milk powder (WMP) and NFDM. Official data only reports whole milk powder and infant formula. Industry sources believe Mexico's production of WMP is around 95 percent of total powdered milk production.

Due to a larger availability of fresh milk, 2011 domestic powdered milk production is forecast to increase 3.5 percent supported chiefly by LICONSA use of powder milk. The estimated production figure for 2010 was revised up 4 percent according to industry estimates.

For 2009, the production was revised up and reflects official data. Approximately 31 percent of the total powdered milk production was used for production of infant formula; in 2008, it represented 36 percent of the total.

Post's production data in PS&D reflects an estimated 100 percent of production of powdered milk although official data (INEGI) only reports 80 percent of the total.

Consumption:

NFDM consumption for 2011 is forecast at 447,000 MT, approximately 4.4 percent more than the 2010 level. This forecast is supported by recovery of consumers' income, higher demand for industrial uses and a stable peso exchange rate.

For 2010, LICONSA's consumption of imported powdered milk is expected to decline 7.2 percent according to official data. However, 2009 figures are revised up according to official data. Sixty-three percent of the total supply of NFDM is consumed by LICONSA and around 35 percent of milk powder is consumed by processors. Processors use NFDM to make reconstituted milk, cheese, and/or other dairy products, and a small amount is sold by supermarkets and small retailers, while the HRI sector consumes the remainder.

Trade:

For 2011, imports will show an increase of 6.9 percent. However, this is lower than the 2009 level. This is partly due to the continued decline of LICONSA's imports of NFDM and the strengthening of the peso against the dollar. For 2010, the NFDM imports are being revised down to reflect the slow rate of imports. However, imports of NFDM will continue since Mexico lacks domestic production of milk powder to supply the dairy processing sector and due to the inexpensive cost of storing milk powder.

Dry milk powder import figures for 2009 are revised down due to the economic crisis and peso devaluation; however, these figures are 6.3 percent higher than 2008.

Through August 2010, Mexico imported 81,558 MT of powdered milk (HS code 04.02.10, 0402.21, 0402.29) from the United States, which is 14.2 percent lower than the same period last year. U.S. powdered milk exports represent 81 percent of the total imports registered during the first eight months of 2010, in contrast to 67.2 percent over the same eight months in 2009.

Table 4. Mexico: Total Imports of Non-Fat Dry Milk Powder, HS: 0402.10.01, Calendar Year 2008-2009 and January-August 2009-2010, in MT

Country of Origin	Calendar Year		January-August	
	2008	2009	2009	2010
United States	136,302	134,075	91,822	78,468
New Zealand	13,020	12,492	9,523	8,888
Uruguay	500	6,350	6,000	0
Others	354	8,873	6,517	1,852
Total	**150,176**	**161,790**	**113,862**	**89,208**

Source: World Trade Atlas, Mexico Edition for 2008 and SIAP-SAGARPA for 2009 and 2010.

According to Mexican dairy industry contacts, the supply of milk in Mexico is about 73 percent domestic fluid milk and 27 percent from reconstituted imported powdered milk.

Table 5. Mexico: Percentage of domestic fluid milk versus reconstructive imported powdered milk, (2005-2009 and January – June 2010).

Year	Domestic	Imported
2005	66%	34%
2006	73%	27%
2007	68%	32%
2008	71%	29%
2009	70.5%	29.5%
Jan-June 2010	73%	27%

Source: CANILEC

Stocks:

Although the majority of NFDM, both imported and domestic, is used for further processing, LICONSA is the main holder of milk powder stocks. In past years, LICONSA has attempted to maintain larger stock levels to avoid importing during the first quarter of the year when domestic milk production is at its lowest. Even with higher powdered milk production, stock levels are expected to remain steady as LICONSA is beginning to process UHT milk and ultra-pasteurized milk in order to offer more variety of milk products and reduce the storage costs of domestically-purchased fluid milk.

Table 6. Mexico: Average Monthly Exchange Rate 2007-2010 (pesos per dollar)

	2007	2008	2009	2010
January	10.94	10.91	13.15	12.80
February	10.99	10.76	14.55	12.94
March	11.12	10.73	14.71	12.57
April	10.98	10.51	13.41	12.23
May	10.82	10.44	13.19	12.74
June	10.83	10.33	13.47	12.72
July	10.80	10.24	13.36	12.82
August	11.04	10.10	13.00	12.77
September	11.03	10.61	13.41	-
October	10.83	12.56	13.24	-
November	10.87	13.08	13.12	-
December	10.84	13.40	12.85	-
Annual Avg.	**10.92**	**11.14**	**12.33**	**12.70**

Source: Banco de Mexico

Production, Supply and Demand Data Statistics:

PSD&D Table Country:	Mexico								
Commodity:	Dairy, Milk, Nonfat Dry								
	2009 Revised			2010 Estimated			2011 Forecast		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Market Year Begin	ene-09			Jan 2010			Jan 2011		
Beginning Stocks	20	20	20	20	20	20			20
Production	245	245	279	250	250	290			300
Other Imports	192	192	187	200	200	145			155
Total Imports	192	192	187	200	200	145			155
Total Supply	457	457	486	470	470	455			475
Other Exports	6	6	5	7	7	7			8
Total Exports	6	6	5	7	7	7			8
Human Dom. Consumption	431	431	461	443	443	428			447
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	431	431	461	443	443	428			447
Total Use	437	437	466	450	450	435			455
Ending Stocks	20	20	20	20	20	20			20
Total Distribution	457	457	486	470	470	455			475

Commodities:

Dairy, Butter

Dairy, Cheese

Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Policy:

Retaliatory duties on U.S cheese exports

On August 18, 2010, the Secretariat of Economy published in the *Diario Oficial* (Federal Register) a list of additional products subject to retaliatory duties and included cheese. These new duties are imposed by Mexican Government due to the United States' failure to comply with the trucking chapters of the North American Free Trade Agreement (NAFTA).

The following cheese products were added to the product list with the stated tariff:

Section	Description	Import Tariff
0406.10.01	Fresh (Unripened or Uncured) Cheese, Including Whey and Curd	25%
0406.30.99	Processed cheese not grated or powdered. Other	25%
0406.90.04	Cheese and curd. Other cheese. Hard or semi-hard, containing by weight of fat exceeding 40%: only Parmegiano-Reggiano or Grana, containing by weight of water in non-fatty matter exceeding 47%; only Danbo Edam, Fontal, Fontina, Fynbo, Gouda, Havarti, Maribo, Samsoe, Esrom, Italic, Kernhem, Saint-Nectaire, Saint-Paulin and Taleggio, with a weight of water content in non-fatty matter exceeding 47 % but not exceeding 72%	20%

According to industry sources, these duties will increase consumer prices; however, these products are destined for the medium- to high-income consumer, which are not expected to reduce their consumption of these cheese products. (See GAIN MX0054 for additional information.)

Brazil Free Trade Agreement

The Mexican and Brazilian presidents have stated their intention to sign a free trade agreement. However, the Mexican livestock sector, including dairy producers, is opposed to a free trade agreement (FTA) between Mexico and Brazil. The Mexican dairy sector leaders believe they will be unable to compete against Brazil due to dependence on imported feed grains and shortages of commercial credit in Mexico.

NOM-051

The Secretariat of Economy published on April 5, 2010, in the *Diario Oficial*, a new version of Mexican regulation NOM-051-SCFI/SSA1-2010, "General labeling and sanitary specifications for pre-packaged foods and non-alcoholic beverages". (Spanish: *Norma Oficial Mexicana NOM-051-SCFI-1994 Especificaciones generales de etiquetado para alimentos y bebidas no alcohólicas preenvasados* or NOM-051.)

The new NOM-051 includes new requirements for labeling pre-packaged foods and non-alcoholic beverages. All pre-packaged food products and non-alcoholic beverages for sale directly to consumers are required to comply with NOM-051 (including imported fluid milk, cheese, butter and powdered milk). Thus, it is important that all U.S. companies exporting to Mexico be aware of these changes and make appropriate modifications to the labels of its products. The new regulation is effective on January 1, 2011.

For those exporters whose products cannot be modified to comply with NOM-051-SCFI/SSA1-2010, on January 1, 2011, the exporter must seek an extension to the General Direction of Regulation of the Secretariat of Economy. This request should be presented before October 31, 2010, addressing the technical and economic reasons for not complying. The document must address the following points:

- Requesting document must be signed by legal representative,
- Legal document showing the power of attorney for said legal representative,
- Amount of inventory,
- Expected inventory rotation timetable,
- Draft of label according to NOM-051,
- Date when the old inventory will be used,
- Economic justification,
- Technical justification for non-compliance with NOM-051 on January 1, 2011.

The request should be sent to:
Mtro. Christian Turégano Roldán
Director General de Normas y Presidente del Comité Consultivo Nacional de Normalización de Seguridad al Usuario, Información Comercial y Prácticas de Comercio
Dirección: Puente de Tecamachalco 6, Piso 3,
Col. Lomas de Tecamachalco,
C.P. 53950, Naucalpan de Juárez, Edo. de México.
Phone 52 (55) 57 29- 94 75 and 57 29- 94 76

An additional copy should be sent to:
Lic. Miguel Ángel Toscano Velasco
Comisionado Federal para la Protección Contra Riesgos Sanitarios y Presidente del Comité Consultivo Nacional de Normalización de Regulación y Fomento Sanitario.
Lic. Miguel Ángel Toscano Velasco
Dirección: Monterrey 33
Col. Roma
C.P. 06700, México, D.F.
Phone 52 (55) 55 14- 85 50

The most important changes to NOM-051 can be found in GAIN Report MX0505
Mexico Revises Food Labeling Regulations.

Imported Milk by LICONSA

LICONSA, one of the most important importers of powdered milk, distributes approximately 3.3 million liters of subsidized milk per day at the current price of 4.60 pesos per liter (U.S. $0.37).[1] Although LICONSA has increased its use of domestic fluid milk, it will continue importing NFDM. In 2009, LICONSA purchased 640 million liters of domestically-produced raw fluid milk, 5 percent more than in 2008. The 640 million liters represents about 60 percent of LICONSA's total milk needs per year.

Currently, LICONSA has 49 facilities to collect cold fluid milk from small and medium dairies. These collection centers have capacity to handled 1.1 million liter daily. Furthermore, LICONSA owns 10 plants to process fluid milk. Through April 2010, LICONSA has processed 358.4 million liters of milk (80 percent fluid milk and 20 percent powdered milk).

Currently, the Mexican Congress is debating a proposal to modify the management of LICONSA. The current proposal may result in LICONSA being privatized.

NOM 243-SSA MILK

On September 27, 2010, the Secretariat of Health (SALUD) published in the *Diario Oficial* the Mexican regulation NOM-243-SSA1-2010 "Milk, milk formula, combined milk products and dairy products. Requirements and sanitary specifications. Testing methods." (Spanish: *NORMA Oficial Mexicana NOM-243-SSA1-2010, Productos y servicios. Leche, fórmula láctea, producto lácteo combinado y derivados lácteos. Disposiciones y especificaciones sanitarias. Métodos de prueba.* or NOM-243.)

The objective of this new regulation is to establish the sanitary and nutritional requirements for milk, milk formula, combined milk and dairy products. This regulation will be effective on November 26,

2010, except for the following sections which will be effective on September 27, 2011: section 6.1.5.5 and section 6.1.5.5.1.

When NOM-243 is effective, the following NOMs will be canceled:

- NOM-035-SSA1-1993, Goods and services. Whey cheeses. Sanitary specifications as published January 30, 1995.
- NOM-036-SSA1-1993, Goods and services. Ice creams of cream, of milk or fat plant, sherbets and conditions or mixtures for ice creams. Sanitary specifications as published March 10, 1995.
- NOM-121-SSA1-1994, Goods and services. Cheeses: fresh, matured and processed. Sanitary Specifications as published February 23, 1996.
- NOM-184-SSA1-2002, Products and services. Milk, milk formula and combined dairy products. Sanitary specifications, as published October 23, 2002.
- NOM-185-SSA1-2002, Products and services. Butter, creams, sweetened condensed milk product, fermented and acidified milk products, milk-based sweets. Sanitary specifications, as published October 16, 2002.

[1] Exchange rate: $1 =12.3 pesos

Marketing:

Mexico will continue to be a significant importer of dairy products to supplement domestic production. While imports are likely to consist primarily of raw material and bulk products such as NFDM, higher-value products such as specialty cheeses and ice creams are also likely to find a home with Mexico's growing middle class as tastes, preferences, and shopping habits increasingly mirror those of the United States and Europe.

Despite the worldwide economic crisis, devaluation and higher import prices, all signs point to the fact that dairy consumption should return to historical consumption levels by the end of 2011. The growth within the dairy processing sector can be attributed to three key factors; family income, new products, and the development of export markets. Despite the fact that family income is not at desirable levels, it has increased at a rate greater than inflation. As family incomes have grown so has demand.

However, Mexico is one of the lowest milk per-capita consuming countries with approximately 270 ml daily, so there is a lot opportunity to increase the consumption to the level of the United States or New Zealand (2 liters per day). For example, specific products for specific market segment, policies to promote consumption of dairy products and better integration resulting in a reduce cost of production are efforts that could be implemented. These efforts could result in higher quantity and more affordable dairy product for all income levels.

The U.S. Agricultural Trade Offices in Mexico City and Monterrey provide information on all aspects of U.S. dairy product trade and use, including market intelligence on trade policy issues. They organize informational seminars for the Mexican trade, and develop promotion and sales opportunities for U.S. dairy products in the Mexican market. Furthermore, the cooperator group representing the U.S. dairy industry in foreign markets, the U.S. Dairy Export Council (USDEC), also organizes buying missions for potential Mexican importers/distributors to visit U.S. dairy processing plants so they can meet U.S. suppliers. For further information contact the following offices.

For questions about analysis and agricultural policy:
Office of Agricultural Affairs
U.S. Embassy
Paseo de la Reforma No. 305
Col. Cuauhtemoc
C.P. 06500 México, D.F.
Phone: (011-52-55) 5080-2532
agmexico@fas.usda.gov

For marketing issues:
Web-site: www.mexico-usda.com
Agricultural Trade Office, Mexico City
Liverpool 31, Col. Juarez
C.P. 06600 México, D.F.
Phone: (011-52-55) 5140-2600
atomexico@fas.usda.gov

Agricultural Trade Office, Monterrey
Blvd. Diaz Ordaz No. 140, Torre 2, Piso 7
Col. Santa Maria
C.P. 64650 Monterrey, Nuevo Leon
(011-52-81) 8333-5289
atomonterrey@fas.usda.gov

Relevant Non-Governmental Organizations:
U.S. Dairy Export Council (USDEC)
Portal Allende No. 4 Int. 13. Col. Centro
C.P. 37700 San Miguel de Allende, Guanajuato
Phone (011- 52-415) 152-4962
http://www.usdec.org

Cámara Nacional de Industriales de la Leche (CANILEC)
Benjamín Franklin No. 134. Col. Escandón
C.P. 11800 México, D.F.
Phone: (011-52-55) 5271-2100 and 5516-5514
canilec@prodigy.net.mx

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For More Information

FAS/Mexico Web Site: We are available at www.mexico-usda.com or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work http://www.youtube.com/user/ATOMexicoCity

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
MX0505	Mexico Revises Food Labeling Regulations	04/19/10
MX0034	Dairy and Products Semi Annual	05/13/10
MX0054	Mexico Increases Trucking Retaliation Against Ag Products	08/18/10
MX0064	Livestock and Products Annual	09/23/10

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.