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Report Highlights:

Mexico's domestic dairy industry has grown at a slow, but steady, pace. Fluid milk remains a basic source of protein for the general population and its consumption continues a favorable upward trend. Mexico's consumers are turning to new dairy products perceived as healthier or trendier, but also cultivating a growing taste for cheese. Producers continue to increase their demand for dairy products used as raw material for different industries, with imports covering the windfall in demand for milk powder, butter, and cheese.

Executive Summary

Mexico's domestic dairy industry keeps expanding, albeit at a moderate pace. In light of fluctuating global dairy markets, Mexico is a complementary and most important export market for U.S. dairy and dairy products. Fluid milk production keeps thriving thanks to private investment in technology, good manufacturing practices, competitive feed prices, and better genetics to improve yields.

Dairy products see a positive trend in domestic consumption, particularly cheeses and dairy drinkables, which enjoy an increasing perception as healthy foods in the eyes of the Mexican consumer. Milk powder maintains an important role as a raw material for various processed food products in the Mexican dairy industry. Milk powder imports are an important and reliable supply, as domestic milk is wholly consumed and does not meet needed supply.

Newly established Mexican government policies established by the Mexican government intend to provide milk to the neediest as a source of protein and vitamins essential for proper nutritional development, even though such policies have seen slow implementation in the first year of President López Obrador's term. The long-term objective is to increase the number of consumers reached by the programs.

Demand for milk and dairy products in Mexico will continue expanding and imports will keep supplementing domestic production, which cannot keep up with demand. Processing industries, such as the baking sector, demand large amounts of high-quality dairy products sourced mainly from U.S. suppliers, with some competition from other countries in some products, such as butter from New Zealand.

Commodities:

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

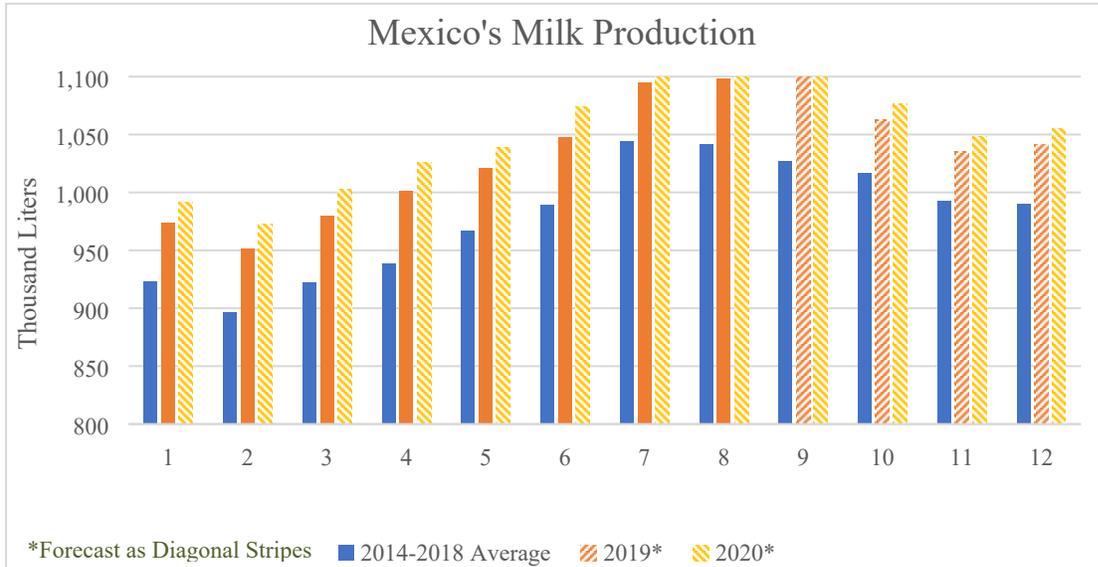
DAIRY, MILK, FLUID

Production

In 2019, milk production is forecast at 12.62 million metric tons (MT) and forecast at 12.87 million MT in 2020, representing a slow, but steady, growth of two percent. Mexican production continues to grow thanks to efforts set by its own industry in improving herd genetics, incorporating technology, and updating manufacturing practices. By 2020, the herd (cows to milk) and its milk production yield is forecast to grow, mainly due to industry efforts at avoiding slaughtering or exporting herd animals. The dairy sector is the third most important in Mexico's food production. Even with such a key role in domestic food production, Mexico's milk supply greatly varies from region to region (northern, southern, and central states) due to diverse cattle breeds and heterogeneous technological, economic, and weather conditions.

Feed, herd management, health, and genetics are the key drivers in Mexico's milk production yield gains. Mexico's dairy industry consumes about 454,000 MT of national annual feed production, representing 16 percent of Mexico's total feed production, according to the National Association of Feed Producers (ANFACA by its Spanish acronym). Mexico's dairy cattle diets vary based on grazing, feed, silage, and hay proportions. Dairy cattle feed production is divided into an estimated 53 percent of vertically integrated operations and an estimated 47 percent of commercial feed mills, with more efficient dairy producers being those that are vertically integrated. As genetics improve, feed quality, and animal management must also improve to take full advantage of the herd's genetic potential.

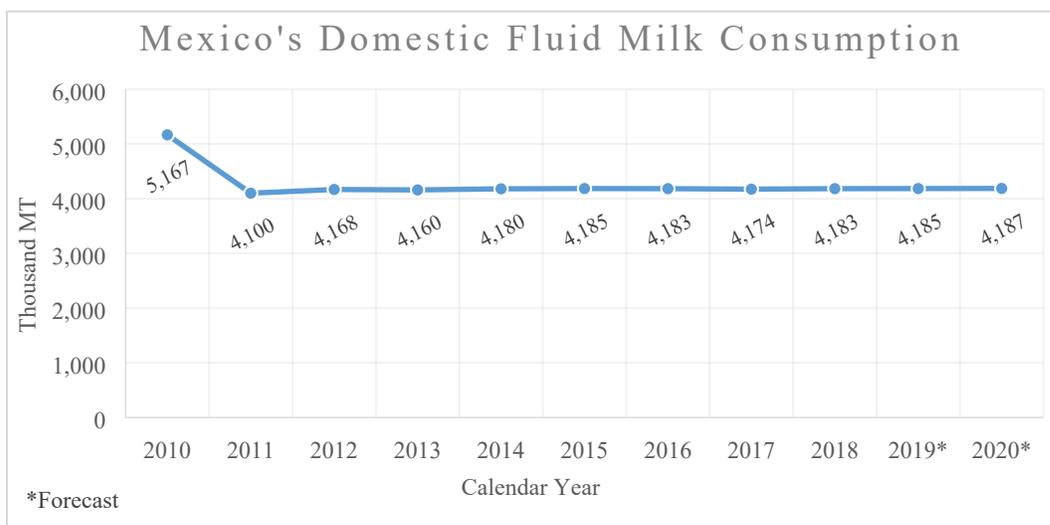
Mexico's lack of reliable herd numbers makes it difficult to definitively assess production by system type, stable size, or even by region. Jalisco state is the main milk producer with slightly over 20 percent of national production, followed by Coahuila state at 11 percent, Durango state at 10 percent, and Chihuahua state at over 9 percent of production.



Source: Servicio de Información Agroalimentaria y Pesquera (SIAP) Database

Consumption

In 2019, domestic consumption is forecast at 4.19 thousand MT and the 2020 forecast remains almost at 4.2 thousand MT. Domestic fluid milk consumption growth is limited, as individual consumers migrate to dairy drinkables over fluid milk, according to the Mexican Chamber of Dairy Processors (CANILEC by its Spanish acronym). Industrial consumption of fluid milk is expected to grow approximately 3 percent from 8.6 million MT in 2019 to 8.9 million MT 2020. Industrial production and sales of value-added products continue to grow at a faster rate than fluid milk consumption because consumers increasingly find novelty dairy products appealing. Dairy processors also continue to use fluid milk to produce other products, such as ultra-high temperature (UHT) pasteurized milk, cheese, yoghurt, cream, butter, and anhydrous milk fat, products that have seen growth in consumption as well.



Source: Boletín de leche, SIAP Database

Trade

Imports

In 2019, imports are forecast at 44,000 MT and forecast at 45,000 MT in 2020. Mexico's domestic milk production meets only approximately 70 percent of its needed supply. Mexico depends on a robust flow of imports to fully satisfy its demand for fluid milk. The United States remains the main supplier of fluid milk to Mexico with practically 100 percent market share. Imported milk is mainly distributed in retail chains with large distribution channels and proximity to U.S. points of entry, such as in northern Mexican states.

Exports

In 2019, exports are forecast at 8,000 MT and forecast at 9,000 MT in 2020. Mexican exports of fluid milk continue a growth trend after decreasing considerably in 2017. Since then, the increase has been steady close to a 10 percent annually, and this trend is set to continue through 2020, according to industry sources. In 2018, the United States remained the main export destination for Mexican milk at 65 percent of exports. Year to year, exports to Guatemala grew from 22 percent to 32 percent, pushing out other export destinations in Central America and the Caribbean, such as Cuba. The rebound in Mexican exports to Guatemala were driven by growing increasing Mexican export price competitiveness.

Dairy, Milk, Fluid Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6550	6550	6500	6500	0	6550
Cows Milk Production	12368	12368	12578	12615	0	12867
Other Milk Production	169	169	170	170	0	171
Total Production	12537	12537	12748	12785	0	13038
Other Imports	42	42	43	44	0	45
Total Imports	42	42	43	44	0	45
Total Supply	12579	12579	12791	12829	0	13083
Other Exports	7	7	8	8	0	9
Total Exports	7	7	8	8	0	9
Fluid Use Dom. Consum.	4183	4183	4185	4190	0	4200
Factory Use Consum.	8389	8389	8598	8631	0	8874
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	12572	12572	12783	12821	0	13074
Total Distribution	12579	12579	12791	12829	0	13083
(1,000 HEAD), (1,000 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.

Policy

Guaranteed Prices and Social Programming

As previously reported (FAS GAIN MX9019), the López Obrador presidential administration announced and launched several social programs to assist the poorest sectors of society. Among those is the Guaranteed Prices Program (*Programa de Precios de Garantía*), which provides small producers with the certainty of selling their milk production at approximately \$1.6 per gallon (8.2 Mexican pesos per liter). The milk obtained from the Guaranteed Prices Program is used by the Mexican parastatal organization that supplies milk to rural and poor communities (LICONSA by its Spanish acronym), to provide consumers with this basic animal protein who would not otherwise obtain milk. Each beneficiary can purchase up to 4 liters of milk per week at a subsidized price and a maximum of 24 liters per week per family. This subsidized offer also serves to keep LICONSA beneficiaries familiarized with and consuming the product.

LICONSA buys about 6.2 percent of domestic milk production and has 40 purchasing centers across the country. About 50 percent of LICONSA-purchased milk is collected in Jalisco state, which is Mexico's top producing state and has 18 LICONSA purchasing centers. According to the National Confederation of Cattle Organizations (CNOG by its Spanish acronym), LICONSA expects to open 20 more purchasing centers by the end of 2019 in order to support more small producers and the 2020 proposed budget includes expanded expenditures for LICONSA milk. The domestic market would not be greatly affected by increased LICONSA purchases, as LICONSA only represents 5 percent of the share of fluid milk in Mexico.

Developing Mexico's New Dairy Producing Region

Along with its other social programs, the López Obrador administration announced a program in the southeastern states of Mexico to develop a new dairy region based out of Tabasco state. This idea has been controversial, as experts and the private sector do not believe the region's weather conditions could successfully host dairy cattle. The region has an abundance of water, but the high heat and humidity would not be ideal for milk producing breeds, such as holsteins or jersey's, and the presence of ticks and other tropical parasites would compromise productivity.

New Food Labeling Policies

Currently, food labeling in Mexico is regulated through the NOM-051-SCFI/SSA1-2010 directive, which establishes front-of-package-labeling (FOPL), as well as nutritional tables and their presentation to consumers. FOPL currently conveys energy content, fat content, and other nutritional factors in small icons shaped as small cylinders. The López Obrador administration has proposed modifying existing FOPL regulations to convey caloric input, fat content, and added-sugar contents depicted as black octagons on product packaging, like the Chilean system. The Mexican dairy sector among other domestic food sectors oppose this new initiative, as it could misinform consumers about products, such as milk and dairy products, that may naturally contain high amounts of calories or fat.

Mexican milk producers' groups are working to build a counterproposal in order to avoid the stigmatization of dairy products. In the meantime, they are also working on a proposal to delay the

enforcement of the new regulation at least 18 months in order to finish current labeling stocks. The Mexican dairy sector is also advocating for the modified regulation to include the intrinsic nutritional value of milk, claiming naturally occurring sugars or fat should not receive the same treatment as added sugar or added fat. The sector also wants the regulation to include the value of vitamins and minerals that milk and dairy adds to the everyday recommended intake.

Dairy Self-sufficiency Goals

Special-interest groups have pressured the Mexican Congress to promote self-sufficiency in dairy and dairy products. Since August 2019, the Lower House has published a non-binding resolution (*punto de acuerdo*) and initiatives (*iniciativas*) requesting the Secretariat of Economy and the Secretariat of Agriculture and Rural Development (SADER by its Spanish acronym) to include milk powder imports under the Special Tax to Products and Services (IEPS by its Spanish acronym). Mexican and the U.S. dairy industries biannually meet to discuss and agree on trade practices and exchange technical best practices. In these meetings, both countries have traditionally signed memorandums of understanding agreeing to work according to World Trade Organization principles and respect free trade. In 2019, the meeting will be held in Torreon, Coahuila on October 21 and 22. Officials from both Secretariat of Economy and SADER have indicated that taxes on milk powder imports will not be implemented, as they would violate international trade agreements.

Mexico's Final Regulations for Dairy Products

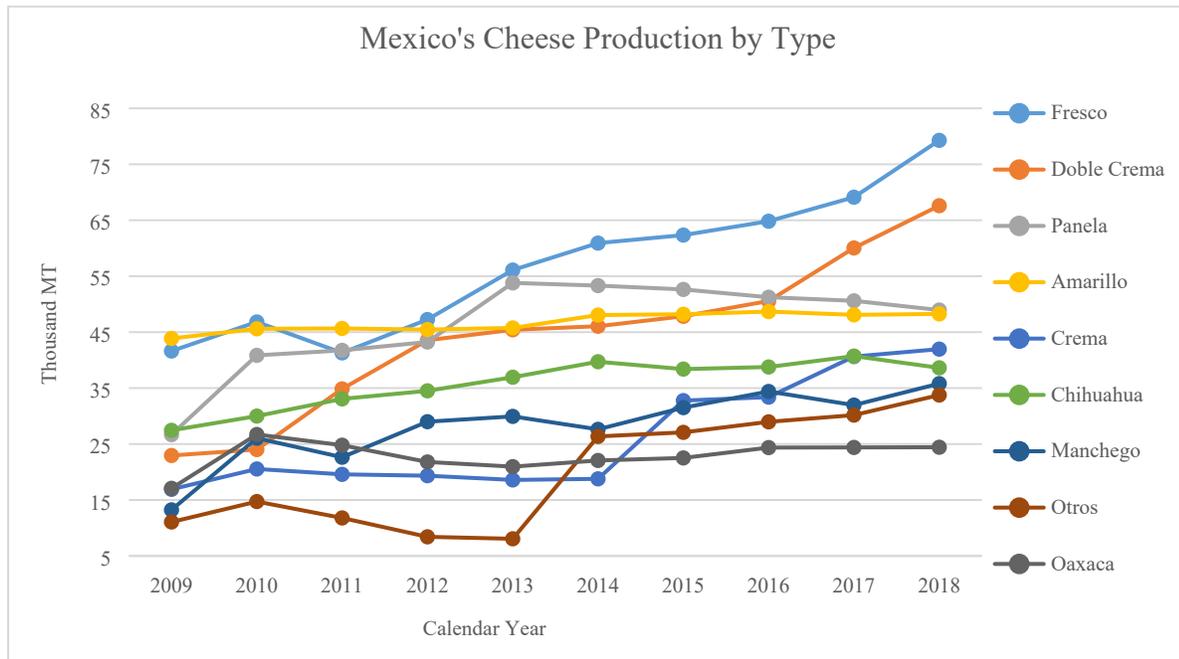
As previously reported (FAS GAIN MX9019), Mexico published three new official regulatory norms (*Norma Oficial Mexicana*, or NOMs) for cheese, milk powder, and yogurt in Mexico's Federal Register (*Diario Oficial*). These standards aim to improve quality and provide standardization in the dairy sector. Mexican authorities have not clarified the process to perform the conformity assessment for cheese.

Regarding the registration process for laboratories set to perform milk powder conformity assessments, Mexican authorities have only published a partial process for domestic labs and not for foreign labs, posing a concern for imports. The Department of Standards (DGN by its Spanish acronym) in the Secretariat of Economy has yet to continue the workshops held with the dairy industry in order to provide certainty on the regulations. Domestic industry groups asking the Mexican government for this regulation to be reviewed and instead be transformed into a voluntary regulation for quality assurance purposes.

DAIRY, CHEESE

Production

Cheese production in 2019 is forecast at 436,000 MT, as Mexico's cheese sector will grow at a pace of 4 percent from 2018 due to growing household and industrial consumption demand. Production in 2020 is forecast at 454,000 MT. Mexico predominantly produces soft cheeses, some of them in the traditional artisan style, such as *fresco* and *panela*. Other cheeses produced in Mexico are *fresco*, *doble crema*, *panela*, *amarillo*, *crema*, *chihuahua*, *manchego*, and *oaxaca*.



Source: Boletín de leche, SIAP Database

Consumption

Cheese consumption in 2019 is forecast at 549,000 MT and forecast at 567,000 MT in 2020. Mexican consumers demand more cheese year after year as a way to obtain recommended protein intakes. However, cheese consumption per capita in Mexico remains relatively low, at little more than 2 kilograms, compared to Latin American countries, such as Argentina at 14 kilograms per capita consumption. Mexican dairy organizations and Mexican state governments are investing in promotional campaigns and providing some financial incentives for the domestic dairy industry to grow.

The Mexican cheese market is extremely fragmented, as no single company dominates the market, either geographically or by product. Even though cheese consumption in Mexico is important in the domestic culinary culture and a growing trend, it is heavily influenced by regional tastes and preferences. Euromonitor and industry sources report lactose-free cheeses, fermented products like kefir, and other innovative products are gaining traction in large urban cities, where the taste of middle-to-upper class consumers is evolving toward healthier food options and also convenient, grab-on-the-go items.

Trade

Imports

Cheese imports in 2019 are forecast at 125,000 MT and forecast at 127,000 MT in 2020, as Mexico's demand for cheese grows. In 2018, the United States was the number one supplier of cheese to Mexico, being the most appealing market in terms of costs. U.S. cheese commanded 78 percent market share, followed by the Netherlands at 9 percent, Uruguay at 5 percent, and New Zealand at 3 percent. The United States has steadily strengthened its share as number one provider from 2015 to 2018 because of its competitive prices and its long-standing role as Mexico's number one trade partner. Mexico's 2018 retaliatory tariffs on U.S. cheeses (see FAS GAIN Reports MX8060, and MX9019) did not affect year-end U.S. cheese exports to Mexico. In fact, trade data show an import spike before tariffs were imposed and a decline in the four months immediately following. The 2018 trade year saw cheese imports by Mexico from the United States grow close to 5.5 percent compared to the year prior.

Export

The 2019 forecast is adjusted downward to 12,000 MT, as Mexico's dairy industry will not be able to maintain 2018 export numbers due to some projected stagnation in the Mexican economy. The 2020 forecast indicates 17 percent growth from 2019 to 14,000 MT, as the Mexican dairy sector expects to grow exports to the United States on a steadier basis, driven by better, more export-oriented planning from Mexican producers. In 2018, Mexico's cheese exports totaled 16,000 MT, with 12,600 MT of those going to the United States – an increase from 3,300 MT northbound exports in 2017, according to official trade data. The United States was the main destination of Mexico's cheese exports at over 75 percent, followed by Chile at 10 percent, Guatemala at 7 percent, and Peru at 3 percent.

Dairy, Cheese Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	419	419	440	436	0	454
Other Imports	123	123	125	125	0	127
Total Imports	123	123	125	125	0	127
Total Supply	542	542	565	561	0	581
Other Exports	16	16	12	12	0	14
Total Exports	16	16	12	12	0	14
Human Dom. Consumption	526	526	553	549	0	567
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	526	526	553	549	0	567
Total Use	542	542	565	561	0	581
Ending Stocks	0	0	0	0	0	0
Total Distribution	542	542	565	561	0	581
(1,000 MT)						

DAIRY, BUTTER

Production

The 2019 production forecast for butter and butterfat (*grasa butirica*) is 231,000 MT and the 2020 production forecast is 233,000 MT. During 2016–2018, production grew at 2 to 2.5 percent annually and continues to drive this growth, as the bakery, confectionary, and other industrial processing sectors drive demand for butter, butterfat, and other dairy inputs.

Consumption

Consumption in 2019 is forecast at 253,000 MT and forecast at 255,000 MT in 2020, growing at 1 to 1.5 percent year over year. Household consumption remains relatively flat, as processors make up the bulk of consumption. Household consumption of butter and butterfat now competes with plant-based alternatives, as some households see the latter as healthier options. Dairy sector efforts to grow dairy product consumption is set more on cheeses and drinkable products than on butter or butterfat spreads.

Trade

Imports

The 2019 forecast is 35,000 MT for butter and butterfat, and the forecast for 2020 is slightly over 36,000 MT. The processing sector utilizes most domestic fluid milk supply and must also import to match its overall supply needs. Imported butterfat is mainly provided by New Zealand with 77 percent market share. This share has been declining considerably from 2016 to 2018, from 93 percent to 77 percent, as the United States share has grown from 1 percent to 16 percent from 2016 to 2018. The United States is positioned as the second most important provider of butterfat to Mexico. These changes are driven by price and logistics, as trade with the United States is more cost effective for Mexico. The Netherlands and Chile close out the list with 3 percent and 2.5 percent market share, respectively.

Butter imports are provided by the United States with 40.5 percent of market share and New Zealand with 38 percent market share. New Zealand and U.S. butter compete on quality at very competitive prices. France commands 14 percent market share of butter imports.

Exports

The export forecast for 2019 is 13,000 MT and the forecast for 2020 is 14,000 MT. The United States is the main destination for Mexican butterfat exports with 99 percent market share and 1 percent share exported to Guatemala.

Butter exports to Cuba have grown considerably and represent 50 percent, followed by the United States with 38 percent of export market share. Italy and Colombia represent most of the remaining 12 percent of exports, with very small amounts going to Belize and the Dominican Republic.

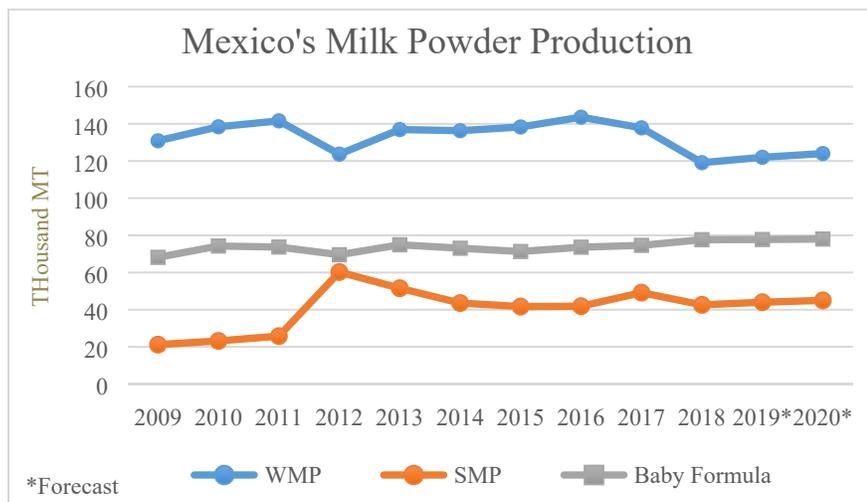
Dairy, Butter Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	228	228	230	231	0	233
Other Imports	33	33	34	35	0	36
Total Imports	33	33	34	35	0	36
Total Supply	261	261	264	266	0	269
Other Exports	11	11	12	13	0	14
Total Exports	11	11	12	13	0	14
Domestic Consumption	250	250	252	253	0	255
Total Use	261	261	264	266	0	269
Ending Stocks	0	0	0	0	0	0
Total Distribution	261	261	264	266	0	269

(1,000 MT)

DAIRY, SKIM MILK POWDER (SMP)

Production

The SMP forecast for 2019 is 44,000 MT and the forecast for 2020 is 45,000 MT. Mexico’s production of SMP can greatly vary, as from 2016 to 2017 production spiked by 17 percent only to decrease by 13 percent from 2017 to 2018. According to the Mexican dairy industry, production during 2019 is expected to grow a little more than 3 percent from 2018 and 2 percent in 2020. Mexico’s dairy producers largely trade fluid milk and have not developed infrastructure for expansive dehydration facilities. There are only five dehydration facilities in Mexico, as imports continue to satisfy demand for this product at a competitive price.



Source: Boletín de leche, SIAP Database

Consumption

The consumption forecast for 2019 is 339,000 MT as domestic consumption stabilizes after a decrease in consumption in 2014. The forecast for 2020 is 345,000. The consumption for 2018 is revised upward to 338,000, as exports peaked from 29,000 MT in 2017 to 105,000 in 2018, especially to Venezuela. Domestic SMP consumption is predominantly for industrial use rather than household consumption. The growing consumption trend toward enriched or fortified dairy products as a goal for a healthier life is the key reason for the growing demand and consumption of SMP. Processors use SMP as an input to elevate the protein content of drinkables, fortified milk, and supplements with an easy to digest protein, which is also shelf stable.

Trade

Imports

The import forecast for 2019 is revised upward to 370,000 MT and the forecast for 2020 is 380,000 MT, as the domestic processing industry demands more SMP in order to satisfy increasing industrial consumption. About 70 percent of imports are used in the dairy industry to produce products like cheese, yogurt, and butter and the remaining 30 percent is used in bakery, chocolates, and other food industries as another input in those products. Mexico is the number one importer of milk powder worldwide. According to the dairy industry, imports represent roughly 30 percent of domestic consumption. The United States supplies 97 percent of Mexican SMP imports, followed by Canada at 1 percent.

Exports

The export data for 2018 is revised down to 65,000 MT as newly available Mexican official numbers reflect formerly acquired export trade data sets showing high SMP exports to Venezuela were not accurate. The forecast for 2019 is 75,000 MT as the Mexican dairy industry is growing at a steady pace. The forecast for 2020 is 80,000 MT, reflecting smaller growth than previous years due to lacking infrastructure required to transform fluid milk to milk powder.

Dairy, Milk, Nonfat Dry Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Beginning Stocks	0	0	0	0	0	0
Production	43	43	44	44	0	45
Other Imports	360	360	368	370	0	380
Total Imports	360	360	368	370	0	380
Total Supply	403	403	412	414	0	425
Other Exports	65	65	75	75	0	80
Total Exports	65	65	75	75	0	80
Human Dom. Consumption	338	338	337	339	0	345
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	338	338	337	339	0	345
Total Use	403	403	412	414	0	425
Ending Stocks	0	0	0	0	0	0
Total Distribution	403	403	412	414	0	425

(1,000 MT)

DAIRY, WHOLE MILK POWDER (WMP)

Production

WMP production in 2019 is forecast at 121,000 MT and forecast at 123,000 MT in 2020, as industry's capacity will continue to grow, but at a very slow pace. Mexico has only five dehydration facilities and this low number keeps production costs high relative to other countries. Remaining domestic demand is satisfied by imports competitive on price and quality.

Consumption

Consumption in 2019 is forecast at 105,000 MT and forecast at 107,000 MT in 2020. Domestic consumption of WMP has fallen since 2017, but shows renewed growth from 2018 to 2020, as reported by dairy industry sources. Mexico's main domestic WMP consumer is LICONSA, the Mexican government organization charged with providing milk to the poorest and most disadvantaged households in Mexico. In the non-governmental sector, new food trends drive WMP consumption, with processors using WMP as a protein and fat ingredient or as a supplement for dairy products, such as fortified milk or fortified yogurt. The bread and bakery industries have increased their consumption of WMP in a variety of new products, like flavored breads and pastries with flavored fillings.

Trade

Imports

The 2019 forecast is 9,000 MT and the 2020 forecast is a little over 10,000 MT. Imports are driven by the need to satisfy growing demand, especially by the processing sector. In 2018, U.S. market share as a supplier to Mexico rebounded in terms of volume and value, but Uruguay positioned itself as the number one supplier in 2018, commanding 54 percent of the share of Mexico's imports due to the overstock in Uruguay production and an appealing cost for the price-sensitive Mexican dairy processing industry.

In 2019 or 2020, this event is not likely to repeat itself and Mexican importers are switching back to buying from U.S. producers. The United States will once again be the number one supplier of WMP for Mexico with more than 95 percent of market share.

Exports

The 2019 forecast is 25,000 MT and the forecast for 2020 is 26,000 MT. Exports as a proportion of domestic production are sizeable at 20 percent, but imports are heavily used to satisfy total domestic demand. Mexican WMP exports are mainly destined to Venezuela with 32 percent of export market share, followed by the United States at 24 percent, Cuba at 21 percent, and Colombia at 17 percent.

Dairy, Dry Whole Milk Powder Market Begin Year Mexico	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	119	119	122	121	0	123
Other Imports	7	7	8	9	0	10
Total Imports	7	7	8	9	0	10
Total Supply	126	126	130	130	0	133
Other Exports	23	23	25	25	0	26
Total Exports	23	23	25	25	0	26
Human Dom. Consumption	103	103	105	105	0	107
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	103	103	105	105	0	107
Total Use	126	126	130	130	0	133
Ending Stocks	0	0	0	0	0	0
Total Distribution	126	126	130	130	0	133
(1,000 MT)						

Attachments:

No Attachments