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Mexico

Dairy and Products

Annual

2002

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Report Highlights:
Mexico's fluid milk production continues to increase, which is expected to temper import demand for milk powder. CY2003 NFDM imports are forecast unchanged. Imports of cheese are expected to rise modestly in 2003, as demand grows and tariffs on U.S. cheese imports drop to zero in January. Daily per capita consumption of milk in Mexico continues to be about half of the daily minimum recommended by the Food and Agriculture Organization of the United Nations.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico [MX1], MX

SECTION I. SITUATION AND OUTLOOK

Dairy Situation and Outlook:

Fluid milk production in CY2003 is forecast to increase slightly over the previous year's revised estimate. This forecast assumes that modernization and improved herd management by large dairies will continue to boost overall production. The CY2003 non-fat dry milk (NFDM) production forecast is unchanged from the current year as growth in fluid milk production and consumption grows modestly. Estimated NFDM imports for CY2003 remain unchanged from the previous year's estimate. The revised NFDM import estimate for CY2001, however, is 2.1 percent higher than the previous figure reflecting final official data. The minimum per capita consumption of milk recommended by the FAO is 0.5 liters per day. It is estimated, however, that 40 percent of Mexico's population never consumes milk and 15 percent drinks it occasionally. The Mexican Trust Fund for Agriculture (FIRA) estimates that the per capita consumption in Mexico in CY2001 was 0.24 liters per day or about 50 percent of the FAO recommendation. The availability of milk per person in Mexico (not including imports) has been decreasing, reflecting a higher population growth rate as compared to the milk production growth rate.

According to government estimates, the Mexican population consumes 30 percent of its milk raw, and about 24 percent of the population obtains subsidized milk under the government's social program. Thus, 54 percent of total milk consumption is outside the market served by private pasteurization plants. The first case represents a severe health problem, and the second case a heavy monetary burden which discourages domestic milk production. The consumption of pasteurized milk and dairy products is 46 percent of total consumption, however, due to urban expansion, this percentage could increase as income levels rise.

The forecasts of cheese, butter and butterfat imports for CY2003 are revised upward following the increase in the pace of cheese imports during the past two years. Import demand is expected to continue growing modestly as the economy struggles to pick up steam. At the same time, barriers to cheese imports have dropped considerably under the NAFTA. U.S. cheese will enter Mexico duty-free in 2003, while other third-country suppliers will face tariff rates of about 20 percent. The outlook for butter is not as positive. As the lower income population in Mexico becomes more price and health conscious, a shift to the use of margarine is expected to occur in the short and medium terms. Demand for butterfat will continue to grow each year as the parastatal Leche Industrializada Conasupo (LICONSA) will need to continue importing to satisfy the demand from its social programs.

Note: All data in the report are provided on a January-December marketing year.

SECTION II. STATISTICAL TABLES

PS&D Dairy, Milk, Fluid

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Fluid**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2001		01/2002		01/2003	
Cows In Milk	6800	6800	6800	6800		6800
Cows Milk Production	9485	9501	9675	9560		9575
Other Milk Production	130	140	135	140		140
TOTAL Production	9615	9641	9810	9700		9715
Intra EC Imports	0	0	0	0		0
Other Imports	20	41	20	20		20
TOTAL Imports	20	41	20	20		20
TOTAL SUPPLY	9635	9682	9830	9720		9735
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Fluid Use Dom. Consum.	4038	4075	4060	4080		4085
Factory Use Consum.	5597	5607	5770	5640		5650
Feed Use Dom. Consum.	0	0	0	0		0
TOTAL Dom. Consumption	9635	9682	9830	9720		9735
TOTAL DISTRIBUTION	9635	9682	9830	9720		9735

PS&D Dairy, Cheese

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Cheese**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2001		01/2002		01/2003	
Beginning Stocks	0	0	0	0		0
Production	137	140	145	145		145
Intra EC Imports	0	0	0	0		0
Other Imports	47	66	60	65		70
TOTAL Imports	47	66	60	65		70
TOTAL SUPPLY	184	206	205	210		215
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	184	206	205	210		215
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	184	206	205	210		215
TOTAL Use	184	206	205	210		215
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	184	206	205	210		215

PS&D Dairy, Butter

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Butter**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2001		01/2002		01/2003	
Beginning Stocks	0	0	0	0		0
Production	20	70	18	70		70
Intra EC Imports	0	0	0	0		0
Other Imports	25	35	37	37		40
TOTAL Imports	25	35	37	37		40
TOTAL SUPPLY	45	105	55	107		110
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Domestic Consumption	45	105	55	107		110
TOTAL Use	45	105	55	107		110
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	45	105	55	107		110

Note: Above data includes butter and butterfat.

PS&D Dairy, Milk, Nonfat Dry

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Nonfat Dry**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2001		01/2002		01/2003	
Beginning Stocks	44	44	29	42		37
Production	140	143	150	150		150
Intra EC Imports	0	0	0	0		0
Other Imports	120	184	125	185		185
TOTAL Imports	120	184	125	185		185
TOTAL SUPPLY	304	371	304	377		372
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	275	329	277	340		345
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	275	329	277	340		345
TOTAL Use	275	329	277	340		345
Ending Stocks	29	42	27	37		27
TOTAL DISTRIBUTION	304	371	304	377		372

PS&D Dairy, Dry Whole Milk Powder

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Dry Whole Milk Powder**					
	2001		2002		2003	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2001		01/2002		01/2003	
Beginning Stocks	0	0	0	0		0
Production	0	0	0	0		0
Intra EC Imports	0	0	0	0		0
Other Imports	30	55	30	45		45
TOTAL Imports	30	55	30	45		45
TOTAL SUPPLY	30	55	30	45		45
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Human Dom. Consumption	30	55	30	45		45
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	30	55	30	45		45
TOTAL Use	30	55	30	45		45
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	30	55	30	45		45

PRODUCTION OF FLUID MILK BY STATE
(000 LITERS)

STATES	2001	2002*
AGUASCALIENTES	415,977	179191
BAJA CALIFORNIA	223,061	92,877
BAJA CALIFORNIA SUR	34,520	14,879
CAMPECHE	22,925	8,459
COAHUILA	951,566	384,925
COLIMA	38,219	8,973
CHIAPAS	268,208	100,233
CHIHUAHUA	772,361	314,662
MEXICO CITY	15,500	6,640
DURANGO	960,261	369,574
GUANAJUATO	643,738	265,705
GUERRERO	69,667	29,336
HIDALGO	400,253	169,272
JALISCO	1,691,082	651,949
MEXICO	480,200	128,580
MICHOACAN	300,971	104,404
MORELOS	16,961	7,091
NAYARIT	68,420	23,960
NUEVO LEON	36,388	17,677
OAXACA	142,286	41,899
PUEBLA	358,842	137,837
QUERETARO	197,275	85,917
QUINTANA ROO	5,062	1,609
SAN LUIS POTOSI	136,017	52,759
SINALOA	84,828	24,103
SONORA	118,355	55,850
TABASCO	89,309	33,145
TAMAULIPAS	22,089	9,188

TLAXCALA	114,981	44,128
VERACRUZ	671,350	207,418
YUCATAN	9,654	3,363
ZACATECAS	140,401	49,429
TOTAL	9,500,727	3,625,032

SOURCE: Agriculture Secretariat (SAGARPA)
* SAGARPA's preliminary figures for January to May, 2002

MEXICO'S MONTHLY FLUID MILK PRODUCTION (000 LITERS)

MONTH	2001	2002*	% Change
JANUARY	720,628	710,790	(1.36)
FEBRUARY	709,278	722,078	1.80
MARCH	728,147	722,867	(0.73)
APRIL	722,404	723,330	0.12
MAY	734,301	745,967	1.58
JUNE	776,998	789,917	1.66
JULY	847,719	n/a	n/a
AUGUST	901,685	n/a	n/a
SEPTEMBER	928,651	n/a	n/a
OCTOBER	877,935	n/a	n/a
NOVEMBER	794,844	n/a	n/a
DECEMBER	758,137	n/a	n/a
TOTAL	9,500,727	3,625,062	n/a

SOURCE: Agriculture Secretariat (SAGARPA)
* SAGARPA's preliminary figures for January to June, 2002

AVERAGE MILK PRICE PAID TO PRODUCERS IN MEXICO
(PESOS PER LITER)

Month	2001	2002*	Var.%
January	2.80	2.90	3.57
February	2.97	2.98	0.33
March	3.05	3.03	(0.65)
April	3.00	3.01	0.33
May	3.00	3.01	0.33
June	3.00	n/a	n/a
July	3.00	n/a	n/a
August	3.00	n/a	n/a
September	3.10	n/a	n/a
October	2.95	n/a	n/a
November	3.01	n/a	n/a
December	3.00	n/a	n/a
NATIONAL AVERAGE	2.99	n/a	n/a

SOURCE: Agriculture Secretariat (SAGARPA)
*SAGARPA’s preliminary figures are for January to May, 2002

MEXICO'S DAIRY PRODUCT IMPORTS

Tariff No. ***Commodity & Country of Origin***	2001		2002*	
	Value	***Volume***	***Value***	***Volume***
0401.10.01 Milk & cream not exceeding 1% fat in hermetically sealed containers(Lts.)				
U.S.	757,329	1,393,985	391,586	705,035
Others	39,625	10,835	3	6
Total	796,954	1,404,820	391,589	705,041
0401.10.99 Other milk and cream not exceeding 1% (Lts.)				
U.S.	241,291	249,109	331,771	321,893
Others	0	0	0	0
Total	241,291	249,109	331,771	321,893
0401.20.01 Milk & cream from 1 to 6% Fat in hermetically sealed Containers (Lts.)				
U.S.	6,542,802	11,668,737	2,728,499	5,061,306
Others	6,536,558	13,531,800	2,697,074	6,685,080
Total	13,079,360	25,200,537	5,425,573	11,746,386
0401.20.99 Other milk & cream between 1 and 6% fat (Lts.)				
U.S.	1,501,661	3,651,725	101,934	296,800
Others	0	0	0	0
Total	1,501,661	3,651,725	101,934	296,800
0401.30.01 Milk & cream exceeding 6% fat in hermetically sealed containers (Lts.)				
U.S.	4,677,383	7,597,197	1,988,293	3,412,431
Others	194,511	99,822	66,921	34,386
Total	4,871,954	7,697,019	2,055,214	3,446,817
0401.30.99 Other milk & cream exceeding 6% (Lts.)				
U.S.	6,837,071	3,173,932	1,272,617	923,069

Tariff No. Commodity & Country of Origin	2001		2002*	
	Value	Volume	Value	Volume
Others	25,827	13,508	18,042	24,248
Total	6,862,898	3,187,440	1,290,659	947,317
0402.10.01 Milk powder not exceeding 1.5% fat (Kgs.)				
U.S.	136,360,300	62,818,079	10,763,552	9,376,887
Others	166,303,900	76,010,574	66,574,319	40,341,266
Total	302,664,200	138,828,653	77,337,871	49,718,153
0402.10.99 Other milk powder not exceeding 1.5% fat (Kgs.)				
U.S.	2,362	604	0	0
Others	6,005,941	1,669,151	2,859,910	915,528
Total	6,008,303	1,669,755	2,859,910	915,528
0402.21.01 Milk powder exceeding 1.5% fat (Kgs.)				
U.S.	96,111	41,738	0	0
Others	112,668,289	52,600,961	27,293,230	17,661,401
Total	112,764,400	52,642,699	27,293,230	17,661,401
0402.21.99 Other milk powder exceeding 1.5% fat (Kgs.)				
U.S.	114,325	24,540	35,518	8,392
Others	7,888,570	2,282,475	1,211,170	347,775
Total	8,002,895	2,307,015	1,246,688	356,167
0402.29.99 Other milk powder (Kgs.)				
U.S.	529,207	167,495	290,018	77,821
Others	0	0	0	0
Total	529,207	167,493	290,018	77,821
0402.91.01 Evaporated milk (Kgs.)				
U.S.	766,717	564,824	470,659	350,735
Others	0	0	0	0
Total	766,717	564,824	470,659	350,735
0402.91.99 Other evaporated milk (Kgs.)				
U.S.	12,570	4,323	5,659	2,201
Others	340,593	229,063	0	0
Total	353,163	233,386	5,659	2,201
0402.99.01 Other evaporated milk (kgs.)				
U.S.	1,630,452	947,598	1,071,026	655,405
Others	7,958,132	7,168,015	5,011	2,322
Total	9,588,584	8,115,613	1,076,037	657,727

Tariff No. ***Commodity & Country of Origin***	2001		2002*	
	Value	***Volume***	***Value***	***Volume***
0402.99.99 Other condensed milk (Kgs.)				
U.S.	236,689	132,420	86,396	25,110
Others	98,220	60,290	0	0
Total	334,909	192,710	86,396	25,110
0406.10.01 Fresh Cheese (Kgs.)				
U.S.	7,115,627	2,905,928	8,664,159	3,402,394
Others	278,301	149,151	79,720	49,995
Total	7,393,928	3,035,079	8,743,879	3,452,389
0406.20.01 Powdered grated cheese (Kgs.)				
U.S.	32,443,860	9,826,442	13,401,582	3,818,947
Others	356,080	105,229	296,034	105,840
Total	32,799,940	9,931,671	13,697,616	3,924,787
0406.30.01Processed cheese (Kgs.)				
U.S.	1,051,106	774,259	501,777	384,451
Others	44,307	12,495	22,021	7,740
Total	1,095,413	786,754	523,798	392,191
0406.30.99 Other processed cheese (Kgs.)				
U.S.	443,804	112,575	231,325	55,396
Others	1,386,794	327,613	291,905	68,146
Total	1,830,598	440,188	523,230	123,542
0406.40.01 Blue cheese (Kgs.)				
U.S.	185,853	28,105	84,498	13,228
Others	840,152	172,310	393,277	81,245
Total	1,026,005	200,415	477,775	94,473
0406.90.01 Sardo cheese (Kgs.)				
U.S.	0	0	286	41
Others	0	0	38,854	9,762
Total	0	0	39,140	9,803
0406.90.02 Reggiano cheese (Kgs.)				
U.S.	3,205	207	680	93
Others	1,372,256	379,853	339,001	78,091
Total	1,375,461	380,060	339,681	78,184
0406.90.03 Colonia cheese (Kgs.)				
U.S.	79,418	18,330	52,616	12,874

Tariff No. *Commodity & Country of Origin*	2001		2002*	
	Value	***Volume***	***Value***	***Volume***
Others	2,104,825	806,939	806,894	316,308
Total	2,184,243	825,269	859,510	329,182
0406.90.04 Various hard & semi-hard cheeses (Kgs.)				
U.S.	914,706	251,855	266,565	62,393
Others	84,386,714	35,254,192	30,706,183	13,462,669
Total	85,301,420	35,506,047	30,972,748	13,525,062
0406.90.06 Egmont, maximum moisture 40%, fat 45% minimum, salt 3.9% (Kgs.)				
U.S.	0	0	0	0
Others	3,251,979	1,427,998	1,003,138	442,189
Total	3,251,979	1,427,998	1,003,138	442,189
0406.90.99 Other cheeses (Kgs.)				
U.S.	23,201,790	6,722,435	8,508,523	2,534,122
Others	22,407,230	7,008,583	9,505,650	3,108,381
Total	45,609,020	13,731,018	18,014,173	5,642,503
0405.10.01 Butter in packages less than 1 kg. (Kgs.)				
U.S.	552,945	136,991	195,518	47,647
Others	782,272	323,140	319,232	130,788
Total	1,335,217	460,131	514,750	178,435
0405.10.99 Other butter (Kgs.)				
U.S.	573,247	158,459	382,600	116,528
Others	3,303,905	2,158,802	936,141	640,660
Total	3,877,152	2,317,261	1,318,741	757,188
0405.20.01 Dairy Spreads (Kgs.)				
U.S.	1,820	662	957	352
Others	3,424	1,000	0	0
Total	5,244	1,662	957	352
0405.90.01 Butter Fat, Dehydrated (Kgs.)				
U.S.	88,104	51,732	0	0
Others	59,254,566	33,289,131	24,282,803	14,449,404
Total	59,342,670	33,340,863	24,282,803	14,449,404
0405.90.99 Butter fat, dehydrated (Kgs.)				
U.S.	21,435	4,059	3,004	567
Others	1,479,372	945,997	0	0

Tariff No. ***Commodity & Country of Origin***	2001		2002*	
	Value	***Volume***	***Value***	***Volume***
Total	1,500,807	950,056	3,004	567
0403.10.01 Yoghurt (Kgs.)				
U.S.	1,751,973	1,090,676	696,011	457,197
Others	278,262	79,265	377,198	204,598
Total	2,030,235	1,169,941	1,073,209	661,795
0403.90.99 Other milk whey (Kgs.)				
U.S.	3,640,195	1,986,720	3,566,440	2,580,986
Others	19,951,975	9,283,455	5,399,352	2,774,716
Total	23,592,170	11,270,175	8,965,792	5,355,702
0404.10.01 Whey, sweetened or not, nor concentrated (Kgs.)				
U.S.	22,646,440	56,344,758	8,400,695	14,301,170
Others	6,439,450	5,124,607	1,485,379	728,100
Total	29,085,900	61,469,365	9,886,074	15,029,270
0404.10.99 Whey, Others				
U.S.	15,475,830	12,058,382	6,220,080	6,449,380
Others	173,450	104,837	98,048	28,095
Total	15,649,280	12,163,219	6,318,128	6,477,475
0404.90.99 Other wheys (Kgs.)				
U.S.	269,312	226,005	385,831	192,168
Others	919,536	336,231	892,248	162,572
Total	1,188,848	562,236	1,278,079	354,740
2105.00.01 Ice cream and similar products (Kgs.)				
U.S.	15,151,640	9,367,887	9,253,808	5,576,317
Others	9,029,660	3,598,353	3,338,823	1,559,888
Total	24,181,300	12,966,240	12,592,631	7,136,205

SOURCE: World Trade Atlas, Mexico Edition, May 2001.
NOTE: Value is in U.S. dollars and volume is in liters or kilograms as indicated following each product description.
*As of May 2002.

MEXICO'S DAIRY PRODUCT EXPORTS

Tariff No. ***Commodity & Country of Origin***	2001		2002	
	Value	***Volume***	***Value***	***Volume***
0401.10.01 Milk & cream with less than 1% fat				
U.S.	9,486	18,842	2,850	14,800
Others	36,601	61,554	610	81
Total	46,087	80,396	3,460	14,881
0401.20.01 Milk & cream from 1 to 6% Fat in hermetically sealed Containers (Lts.)				
U.S.	776	479	1,812	882
Others	23,022	88,920	14,407	6,722
Total	23,798	89,399	16,219	7,604
0401.30.01 Milk & cream exceeding 6% fat in hermetically sealed container Lts.				
U.S.	68,985	15,118	40,817	9,441
Others	12,415	45,504	36	31
Total	81,400	60,622	40,853	9,472
0402.10.01 Milk powder less than 1.5% fat (Kgs.)				
U.S.	530,219	118,228	157,390	31,606
Others	1,457,438	446,223	212,821	78,407
Total	1,987,657	564,451	370,211	110,013
0402.21.01 Milk powder exceeding 1.5% fat (Kgs.)				
U.S.	722,989	202,523	535,085	173,404
Others	25,370,301	8,375,313	11,619,873	4,087,072
Total	26,093,290	8,577,836	12,154,958	4,260,476
0402.29.99 Other milk powder (Kgs.)				
U.S.	293,151	112,672	275,163	126,195
Others	11,000,809	3,528,228	78,041	25,747
Total	11,293,960	3,640,900	353,204	151,942
0402.91.01 Evaporated milk (Kgs.)				
U.S.	825,500	476,283	308,857	183,762
Others	71,429	55,543	3,337	1,110
Total	896,829	531,826	312,194	184,872
0402.99.01 Condensed milk (Kgs.)				
U.S.	2,760,441	1,877,157	477,815	309,723
Others	2,421,851	1,883,171	5,847	5,749
Total	51,822,920	3,760,328	483,662	315,472

Tariff No. *Commodity & Country of Origin*	2001		2002	
	Value	***Volume***	***Value***	***Volume***
0406.10.01 Fresh cheese (Kgs.)				
U.S.	221,285	250,029	135,207	91,865
Others	69	120	437	100
Total	221,354	250,149	135,644	91,965
0406.20.01 Powdered grated cheese (Kgs.)				
U.S.	428214	94,652	202	269
Others	83	99	67	25
Total	428297	94,751	269	294
0406.30.01 Processed cheese (Kgs.)				
U.S.	4,097	811	39,899	22,182
Others	224,374	64,092	72,464	21,322
Total	228,471	64,903	112,363	43,504
0406.90.99 Other cheeses (Kgs.)				
U.S.	1,631,682	462,487	533,642	134,991
Others	119,430	40,966	23,878	6,461
Total	1,751,112	503,453	557,520	141,452
0405.10.01 Butter in packages less than 1 kg. (Kgs.)				
U.S.	289,681	100,596	6,900	3,000
Others	2,439	675	0	0
Total	292,120	101,271	6,900	3,000
0405.20.01 Dairy Spreads (Kgs.)				
U.S.	781	147	1,637	609
Others	5,584	6,004	0	0
Total	6,365	6,151	1,637	609
0405.90.99 Butter fat, dehydrated (Kgs.)				
U.S.	4,615	1,652	1,626	21,067
Others	17,896	10,080	9,620	6,970
Total	22,511	11,732	11,246	28,307
0403.10.01 Yoghurt (Kgs.)				
U.S.	87,365	65,350	29,750	13,632
Others	311,614	216,269	156,200	108,906
Total	398,979	281,619	185,950	122,538
0403.90.99 Other milk whey (Kgs.)				
U.S.	382,383	208,900	65,134	38,447

Tariff No. ***Commodity & Country of Origin***	2001		2002	
	Value	***Volume***	***Value***	***Volume***
Others	42,755	16,184	4,293	1,520
Total	425,138	225,084	69,427	39,967
0404.10.01 Whey, sweetened or not, nor concentrated (Kgs.)				
U.S.	43,097	44,536	21	23
Others	64,121	70,674	13,413	10,568
Total	107,218	115,210	13,434	10,591
0404.90.99 Whey, Others				
U.S.	40,653	11,217	53,483	23,179
Others	56	120	0	0
Total	40,709	11,337	53,483	23,179
2105.00.01 Ice cream and similar products (Kgs.)				
U.S.	1,146,188	3,421,787	76,105	212,468
Others	1,910,526	1,323,722	1,110,785	715,414
Total	3,056,714	4,745,509	1,186,890	927,882

SOURCE: World Trade Atlas, Mexico Edition, May 2001.
NOTE: Value is in U.S. dollars and volume is in liters or kilograms as indicated following each product description.

*As of May 2002.

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

FLUID MILK

Production

Fluid milk production for CY2003 is forecast to increase due to the increased productivity of large dairies under confined systems. Production is anticipated to increase at a moderate rate into the foreseeable future. Mexico's fluid milk production estimate for CY2002 has been revised downward due to more current information from industry sources. The fluid milk production figure for CY2001 has been revised upward based on official government data. Despite the forecast for increased production, poor sanitation and genetics, inefficient cold storage, refrigeration, transportation, and marketing facilities, particularly affecting semi-confined systems and dual-purpose cattle operations, remain major obstacles to significant increases in production. Small and medium sized dairies are continuously facing financial problems as a result of increased costs and low productivity. Relatively low domestic raw milk prices and the lack of affordable financing for capital improvements discourage small and medium-sized dairy farms from expanding, particularly in central Mexico.

Producer prices continue to be established by market forces. These prices were 0.7 percent higher in the first five months of CY2002 than the same period in CY2001. Raw milk producer prices in the first five months in CY2002 ranged between 2.90-3.03 pesos (US$0.28 - 0.30 per liter).

According to Mexican government trade data, a total of 17,358 head of dairy cattle were imported by Mexico in 2001. The total imports of dairy cattle for the first half of 2002 have reached 8,555 head.

Consumption

Fluid milk consumption for CY2003 is forecast to increase slightly from the previous year's revised estimate due to general population growth and increased usage by bakeries, confectionaries and dairy processors. Consumption in CY2002 has been revised downward by 1.1 percent from our previous estimate based on more recent information from industry sources. The consumption figure for CY2001 also has been revised upward by 3.9 percent from the previous estimate to reflect official government data.

Consumer prices in Mexico are currently 7.00 pesos per liter for pasteurized milk (US$0.69) and 9.80 pesos per liter of UHT milk (US$0.97).

According to private sources, LICONSA is distributing close to 5 million liters of subsidized milk per day. Although LICONSA has increased utilization of domestic fluid milk, its social program continues to rely mainly on NFDM imports. In 2002, LICONSA is expected to use 97 million liters of domestically produced raw fluid milk, 15 percent more than in 2001. This, however, will represent only 18 percent of LICONSA's total milk usage. Further utilization of domestic fluid milk is hampered by: 1) seasonal demand; 2) moderate domestic productivity; and, 3) sanitation and transportation problems.

Trade

Fluid milk imports for CY2003 are forecast to remain unchanged from the previous year's figure due to the expected increase in domestic production. As in previous years, most of the imports will go to the border cities of northern Mexico . The import estimate for CY2002 also remains unchanged due to increased domestic supplies year to year. For CY2001, the estimate has been revised upward to reflect official government data and a special sale of condensed milk from Nestle Chile to Nestle Mexico.

Medium and small dairy farms are finding it unprofitable to import heifers due to high domestic interest rates and the risks of accruing medium-term dollar debt. With the exception of Mexico's large, vertically integrated dairies, domestic heifer production is insufficient to significantly increase the dairy herd population, therefore, imports of fluid milk and NFDM are expected to continue for the foreseeable future.

Policy

The government's main objective is to encourage producers to improve efficiency and productivity through improved genetics and use of available technological advances for the dairy industry . The reduction in imports of fluid milk and dairy products from previous years, particularly into northern Mexico, is much the result of increased domestic milk production. Shipments to Mexican border states have also been affected by local governments' response to pressure from Mexico's domestic producers to discourage imports of U.S. retail-pack milk. These efforts have been aided by strict enforcement by Mexican State authorities of the quality standards and food safety regulations. This regulatory burden has discouraged some U.S. exporters.

Marketing

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

CHEESE

Production

Cheese production for CY2003 is forecast to remain unchanged from the previous year's estimate due to the expected increase in imports from the U.S. at zero duty. Given steady demand from middle class consumers and current production costs, CY2002 cheese output remains unchanged from the previous estimate. The CY2001 estimate for cheese production has been revised upward to reflect official government data. Substantial production of home-made cheeses in rural Mexico continues to be a supply factor.

Consumption

Cheese consumption during CY2003 is forecast to increase as a result of more cheese varieties in the market and population growth. Also, the cheese consumption estimate for CY2002 has been revised upward from our previous estimate to reflect more current industry data and stronger consumer demand. Cheese consumption for CY2001 has also been revised upward by 11.9 percent from the previous estimate to reflect official government data. Mexico's economic recovery is expected to continue, thus allowing consumer spending on dairy products to increase in the short term.

Trade

The cheese import forecast for CY2003 is nearly eight percent higher than the previous year's revised estimate. Demand for select high-quality cheeses, which are not produced domestically, is expected to increase as imports of these cheeses will be duty free in 2003 with the implementation of the North American Free Trade Agreement. The cheese import estimate for CY2002 has been revised upward due to attractive prices for cheeses not produced in Mexico and the demand for these cheeses among certain sectors of the population. The CY2001 import estimate has been revised upward from our previous figure to reflect official government data.

Policy

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

Marketing

With current U.S. Dairy Export Promotion Council (USDEC) promotional efforts, U.S. semi-hard cheeses are gaining market share at the expense of hard cheeses imported from the European Union. Some domestic cheese manufacturers are interested in distributing U.S. cheeses in Mexico, taking advantage of their distribution channels and knowledge of the market.
BUTTER

Production

Butter and butterfat production is forecast to remain unchanged during CY2003 compared to the previous year's revised estimate due to steady consumption patterns and industry demand, particularly by LICONSA. The CY2002 butter production estimate is revised substantially upward from our previous estimate based on the inclusion of butterfat production as part of the government's official statistics for butter production. All future statistics on butter and butterfat production will be combined. The CY2001 butter and butterfat production estimate has also been revised upward based on official government data.

Consumption

The Mexican market for consumer-pack butter may not be promising in the short term. Over the longer term, however, differences in import tariffs under the NAFTA should help the U.S. relative to other exporters because of zero duties for butter imports from the U.S. compared to other country sources. The combined butter and butterfat consumption forecast for CY2003 is nearly 3.0 percent higher compared to the previous year's revised estimate. LICONSA's reconstitution of milk powder program for the poor is expected to account for the increase. The estimate for CY2002 is revised upward to take into account the usage of butterfat in LICONSA's milk program. For CY2001, the estimate is revised for the same reason as above and to reflect official government data.

Stocks

Consistent with past years, stocks are expected to remain at minimal or zero levels during CY2003 due to a lack of refrigerated storage space among producers and end users. Furthermore, most of the product is consumed almost immediately by bakeries, food processors and LICONSA for reconstituting milk powder.

Trade

Butter imports are forecast to increase during CY2003 compared to the previous year's revised estimate due to increased consumption from LICONSA. For CY2002, the previous estimate remains based on industry information and demand from LICONSA for reconstituting milk powder with animal fat instead of palm oil. The import estimate for CY2001 was revised upward to reflect official government data.

Policy

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

Marketing

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

NON-FAT DRY MILK (NFDM)

Production

Mexican NFDM producers are not expected to be able to significantly increase production in the short term due to limited processing facilities. Therefore, the output forecast for CY2003 is expected to remain unchanged from the CY2002 estimate. The production figure for CY2001 has been revised downward from our previous estimate to reflect official government data.

As a result of limited domestic production, Mexico will likely continue to import significant amounts of NFDM to meet domestic demand.

Consumption

The consumption forecast for CY2003 is expected to increase slightly from our previous year's revised estimate as increased supplies of domestic fluid milk will help offset the need for a large increase in imports. The consumption estimate for CY2002 has been revised upward by 26 percent based on more recent information from private industry sources and the growth of the general population. For CY2001 the consumption figure also has been revised upward to reflect data from private industry sources and government data. LICONSA is projected to continue as the main NFDM user.

Stocks

The majority of product imported and produced domestically is used for further processing, however, some stocks were left over from the previous years as LICONSA was trying to build stocks to avoid early-in-the-year-imports of NFDM which is always a sore spot with domestic milk producers. LICONSA has resorted to using available stocks to avoid imports at a time when domestic milk producers are very critical of imports due to increased production of fluid milk.

Trade

Mexico continues to be far from reaching self-sufficiency in NFDM production because of limited domestic processing capacity. Additonally, growth in the quantity of subsidized rehydrated milk that LICONSA distributes to the poor due will likely be limited to increases in population. The import forecast for NFDM in CY2003 is unchanged from the previous year's revised estimate due to an expected increase in fluid milk output. For CY2002, the NFDM import estimate has been increased due to more current information from industry sources indicating increased demand for NFDM from cheese and other dairy product processors. The NFDM import figure for CY2001 has been revised upward based on official government data. Mexico still needs to supplement domestic production with imports because domestic production of powdered milk is insufficient to meet demand.

Policy

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

Marketing

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

WHOLE MILK POWDER (WMP)

Production

No changes from our previous report, MX2070, dated 5/14/02. Production for CY2003 is forecast to remain consistent with the previous year's figures.

Consumption

WMP consumption for CY2003 is forecast to remain unchanged from the previous year's revised estimate due expected stable demand from LICONSA and other end users. The consumption estimate for CY2002 is revised upward from our previous estimates due to increased demand from bakeries, candy manufacturers, and general population growth. For CY2001, the consumption estimate has been revised upward to reflect official government data and increased end user usage. According to LICONSA, over 60 percent of the WMP and NFDM is consumed by the poor. LICONSA expects to continue opening new milk stores in proportion to population growth, as long as the government budget permits. LICONSA is currently distributing over 5 million liters of reconstituted milk per day.

Stocks

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

Trade

Mexico continues to be far from reaching self-sufficiency in WMP production because of limited domestic processing capacity. Imports are forecast unchanged in CY2003 compared to the previous year's estimate due to increased fluid milk production. Estimates of WMP imports for CY2002 and CY2001 have been revised upward because Mexico still needs to supplement domestic production with imports, as domestic production of WMP is limited.

Policy

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

Marketing

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

POLICY

Since the signing of NAFTA, no import permits are required for dairy products. Tariffs are currently two percent for dairy products other than fresh cheese, which has a four percent import duty, and powdered milk which is subject to a zero duty import quota (cupo). In 2002, imports of powdered milk above the quota (cupo) are subject to an import duty of 58.7 percent. With the exception of powdered milk all U.S. exports of dairy products to Mexico will be duty-free in 2003. Milk powder exports to Mexico from the U.S. will be duty-free in 2008.

Import certificates are issued to specific companies or individuals according to their registered activity, be it distribution or processing. The way the importer obtains a share of an import quota is through bidding in an auction organized by the Ministry of Economy.

MARKETING

Distributors/importers will be the key to the success of any imported product since only a few of the major food service chains import directly. Retail buyers cite inadequate distribution -- the inability to provide supply continuity and on time delivery -- as the major reason why new-to-market US products fail in their stores.

It is important for U.S. firms to have someone -- an agent or reliable distributor -- who can maintain regular contact with buyers, interface with the government, handle the required paperwork, and ensure that customer service is maintained. There are only a few national distributors with the capability to handle food items nationwide, so it is not uncommon for a U.S. exporter to have multiple distributors to supply the major regional markets.

The most up-scale supermarkets in Mexico are as modern as any stores in the United States and cater primarily to upper-income consumers. Virtually all imported food items are currently purchased through Mexican-based distributors. These distributors must deliver almost daily, or at least weekly, to each of the retailer's outlets to be competitive. This enables the chains to keep inventories at a minimum, avoid investment in large centralized storage, and bypass the added logistics of importing directly.

The cooperator group that represents the US dairy industry in foreign markets is called the US Dairy Export Council (USDEC). The council's staff in Mexico City provides information on all aspects of US dairy products trading and use, including providing market intelligence on trade policy issues, organizing informational seminars for the Mexican trade and developing promotion and sales opportunities for US dairy products in the Mexican market. USDEC also organizes buying missions for potential Mexican importers/distributors to visit US dairy processing plants so they can meet and see, firsthand, various US suppliers and the services they offer.

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