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Dairy and Products

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Report Highlights:
Mexico will continue to be one of the most important markets for U.S.dairy products, given its NAFTA schedule for reducing and/or eliminating tariffs, coupled with projections for population and income growth. Poor sanitation and genetics, inefficient cold storage and refrigeration, and out-dated transportation and marketing facilities continue to limit expansion in semi-confined systems and dual purpose cattle operations. As a result, Mexico will likely continue to import significant amounts of nonfat dry milk (NDM) and whole milk powder (WMP) to meet growing domestic demand.

Includes PSD changes: Yes
Includes Trade Matrix: No
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SECTION I.

SITUATION AND OUTLOOK

Dairy Situation and Outlook: The revised CY2002 forecast for Mexican production of total fluid milk is 10,077 MT. Production is anticipated to increase at a moderate rate in the foreseeable future, but not enough to satisfy increasing domestic demand. Poor sanitation and genetics, inefficient cold storage and refrigeration, and out-dated transportation and marketing facilities continue to limit expansion in semi-confined systems and dual purpose cattle operations. As a result, Mexico will likely continue to import significant amounts of nonfat dry milk (NDM) and whole milk powder (WMP) to meet growing domestic demand.

LICONSA is projected to continue as the main NDM and WMP user to supply reconstituted milk to low income families.

The CY2002 forecast of cheese production has remained unchanged to reflect industry and government historical figures plus an allowance for unreported on-farm use. For CY2001 and CY2000, the estimates have been revised upward to reflect more current data from industry and government sources. Imports of high quality cheeses from the EU appear to be growing. However, imports of U.S. cheeses are gaining market share based on successful promotional campaigns sponsored by the National Dairy Board.

SECTION II.

STATISTICAL TABLES

PS&D Dairy, Milk, Fluid

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Milk, Fluid**					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2000		01/2001		01/2002	
Cows In Milk	6800	6800	6800	6800	6800	6800
Cows Milk Production	9305	9305	9485	9501	9675	9937
Other Milk Production	130	132	130	140	135	140
TOTAL Production	9435	9437	9615	9641	9810	10077
Intra EC Imports	0	0	0	0	0	0
Other Imports	20	44	20	31	20	20
TOTAL Imports	20	44	20	31	20	20
TOTAL SUPPLY	9455	9481	9635	9672	9830	10097
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	3915	3915	4038	4075	4060	4227
Factory Use Consum.	5540	5566	5597	5597	5770	5870
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	9455	9481	9635	9672	9830	10097
TOTAL DISTRIBUTION	9455	9481	9635	9672	9830	10097

PS&D Dairy, Cheese

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Cheese**					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2000		01/2001		01/2002	
Beginning Stocks	0	0	0	0	0	0
Production	122	134	137	140	145	145
Intra EC Imports	0	0	0	0	0	0
Other Imports	45	54	47	66	60	65
TOTAL Imports	45	54	47	66	60	65
TOTAL SUPPLY	167	188	184	206	205	210
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	167	188	184	206	205	210
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	167	188	184	206	205	210
TOTAL Use	167	188	184	206	205	210
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	167	188	184	206	205	210

PS&D Dairy, Butter

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Butter**					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2000		01/2001		01/2002	
Beginning Stocks	0	0	0	0	0	0
Production	18	15	20	15	18	18
Intra EC Imports	0	0	0	0	0	0
Other Imports	31	34	25	35	37	37
TOTAL Imports	31	34	25	35	37	37
TOTAL SUPPLY	49	49	45	50	55	55
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	49	49	45	50	55	55
TOTAL Use	49	49	45	50	55	55
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	49	49	45	50	55	55

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**					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2000		01/2001		01/2002	
Beginning Stocks	49	49	44	44	29	42
Production	140	151	140	143	150	150
Intra EC Imports	0	0	0	0	0	0
Other Imports	127	117	120	140	125	135
TOTAL Imports	127	117	120	140	125	135
TOTAL SUPPLY	316	317	304	327	304	327
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	272	273	275	285	277	290
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	272	273	275	285	277	290
TOTAL Use	272	273	275	285	277	290
Ending Stocks	44	44	29	42	27	37
TOTAL DISTRIBUTION	316	317	304	327	304	327

Note: Above data includes production figures for both WMP and SMP. Some industry sources believe Mexico's production of WMP is 70 to 80 percent of total production. Most of the domestic milk powder is produced by Nestlé.

PS&D Dairy, Dry Whole Milk Powder

(1000 Metric Tons)

PSD Table						
Country:	**Mexico**					
Commodity:	**Dairy, Dry Whole Milk Powder**					
	2000		2001		2002	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2000		01/2001		01/2002	
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	31	34	30	55	30	45
TOTAL Imports	31	34	30	55	30	45
TOTAL SUPPLY	31	34	30	55	30	45
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	31	34	30	55	30	45
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	31	34	30	55	30	45
TOTAL Use	31	34	30	55	30	45
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	31	34	30	55	30	45

Note: Production figures for WMP are included in PS&D for NFDM.

PRODUCTION OF FLUID MILK BY STATE
(000 LITERS)

STATES	2001
AGUASCALIENTES	415,977
BAJA CALIFORNIA	223,061
BAJA CALIFORNIA SUR	34,520
CAMPECHE	22,925
COAHUILA	951,566
COLIMA	38,219
CHIAPAS	268,208
CHIHUAHUA	772,361
MEXICO CITY	15,500
DURANGO	960,261
GUANAJUATO	643,738
GUERRERO	69,667
HIDALGO	400,253
JALISCO	1,691,082
MEXICO	480,200
MICHOACAN	300,971
MORELOS	16,961
NAYARIT	68,420
NUEVO LEON	36,388
OAXACA	142,286
PUEBLA	358,842
QUERETARO	197,275
QUINTANA ROO	5,062
SAN LUIS POTOSI	136,017
SINALOA	84,828
SONORA	118,355
TABASCO	89,309
TAMAULIPAS	22,089

TLAXCALA	114,981
VERACRUZ	671,350
YUCATAN	9,654
ZACATECAS	140,401
TOTAL	9,500,727

SOURCE: Agriculture Secretariat (SAGARPA)
SAGARPA's final figures for 2001

MEXICO'S MONTHLY FLUID MILK PRODUCTION (000 LITERS)

MONTH	2001	2002*	% Change
JANUARY	720,628	726,146	0.7
FEBRUARY	709,278	714,677	0.7
MARCH	728,147	732,743	0.6
APRIL	722,404	725,940	0.4
MAY	734,301	n/a	n/a
JUNE	776,998	n/a	n/a
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	n/a	n/a

SOURCE: Agriculture Secretariat (SAGARPA)
*SAGARPA's preliminary figures as of April 2002

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

Month	2001	2002*	Var.%
January	2.80	2.92	4.2
February	2.97	2.98	0.3
March	3.05	3.00	(1.6)
April	3.00	n/a	n/a
May	3.00	n/a	n/a
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 March, 2002

SECTION III.

NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

FLUID MILK

Production

The fluid milk production forecast for CY2002 is revised upward reflecting accountable figures from both the Mexican dairy industry and the Government of Mexico (GOM). Many large dairies under confined systems continue to focus on improving productivity levels through the use of improved genetics, feed formulas and seasonal comforting systems such as water mist sprayers during summer months with only slightly increasing the number of milk cows at the expense of dual purpose cows. Improved prices for domestic raw milk are encouraging small and medium sized dairy farms to expand milk production in central Mexico. Some leading fluid milk processors claim that significant amounts of raw fluid milk are being sold as non-chilled, which limits its use in processing to pasteurized fluid milk. Fluid milk production for CY2001 is revised slightly upward reflecting more current information from the Mexican dairy industry. Production of fluid milk for CY2000 is revised upward to reflect final data from industry and GOM.

Consumption

The forecast and estimates of fluid milk consumption for CY2002, CY2001 and CY2000 remain unchanged from our previous estimates in order to reflect GOM and industry positions. The year-to-year increase is attributable to population growth and increased availability of total dairy products.

Current average consumer prices in Mexico are 7.00 pesos per liter for pasteurized milk (US$0.755) and 6.95 per liter for UHT milk (US$0.749).

Trade

Breeding Cattle

According to GOM trade data, 17,358 head of dairy cattle were imported from the U.S. and Canada during CY 2001. This reflects the country's continued need to increase production, and the efforts of large dairies to move to modernize operations.

Semen

Increased use of semen to improve dairy genetics is expected in the future. Increased competition from non-traditional suppliers such as New Zealand, Australia and European Union countries is envisioned.

Fluid Milk

The CY2002 forecast of fluid milk imports remains unchanged from our previous estimate due to increased domestic production. The U.S. is the sole supplier of fluid milk to Mexico, particularly to the border areas. For CY2001 and CY2000, the fluid milk imports are revised upward to reflect more current data from the Mexican dairy industry and final GOM data.

Policy

The GOM does not maintain minimum support prices for producers' raw fluid milk. Current producer prices range from 2.92 pesos per liter to 3.00 pesos per liter (US$0.314 and US$0.323) respectively. The GOM's main objective is to encourage producers to improve efficiency and productivity levels. The reduction in imports of fluid milk and dairy products from previous years, particularly into northern Mexico, is much the result of increasing domestic production.

Marketing

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

NONFAT DRY MILK

Production

NDM production forecast for CY2002 remains unchanged from our previous figure due to limited production facilities. The NDM production estimate for CY2001 is revised slightly upward to reflect updated information from both industry and government. The slight increase in domestic production was insufficient to meat demand and as a result, the NDM import numbers have been increased. For CY2000, the production estimate is revised upward to reflect final GOM trade data.

Consumption

Nearly 65 percent of total CY2002 NDM imports will be used by LICONSA's social feeding program. Domestic dairy processors report that they increased somewhat the use of NDM in their products during CY2001. Although LICONSA has stated they will increase utilization of domestic fluid milk in CY2002, its program continues to rely mainly on NDM imports. In CY2002, LICONSA is expected to use approximately 100 million liters of domestically produced raw fluid milk. Further utilization of domestic fluid milk is restricted by seasonal patterns and low production levels per dairy farmer and sanitation and transportation problems.

Trade

For CY2002, imports are forecast to increase over our previous estimate due to an expected increase in domestic consumption by industry and LICONSA. The import estimate for CY2001 is also revised upward from our previous estimate due to an increase in consumption from industry and LICONSA. Imports of NDM for CY2000 have been revised downward to reflect final 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.

CHEESE

Production

Mexican cheese production for CY2002 remains unchanged from our previous forecast at 3.5 percent over the previous year's revised estimate due to an expected increase in consumption in response to the general growth of the population. The estimated cheese production figure for CY2001 is revised upward from our previous estimate due to more current information from dairy industry and government sources. For CY2000, our production estimate is revised upward to reflect final data from the Mexican Dairy Association and government.

Consumption

For CY2002, cheese consumption forecast remains unchanged from our previous estimate at 5.1 percent over the previous year's revised estimate due to an expected increase in demand fueled by attractive prices and readily available variety of product. The cheese consumption estimate for CY2001 is revised upward from our previous estimate due to updated information from the Mexican Dairy Association. Consumption for CY2000 is revised upward to reflect final data from the Mexican

Dairy Association and government.

Trade

The cheese import forecast for CY2002 remains unchanged from our previous estimate which is expected to reach 60,000 MT or 9.0 percent over the previous year's revised estimate due to an expected increase in demand for variety cheeses and cheese products from the middle and upper income level population. The CY2001 import estimate is revised upward reflecting the expected increase in demand from the middle and upper level income sectors. For CY2000, imports are revised upward to reflect final data from the National Dairy Association and government.

Policy

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

Marketing

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

BUTTER

Production

Butter and butter fat production for CY2002 is forecast slightly upward from the previous year's revised estimate due to the expected increase in consumption from private and public (LICONSA) processors. Production estimate for CY2001 is revised slightly downward to reflect updated information from the Mexican Dairy Association and other private industrial sources. Production for CY2000 is revised downward to reflect final data from Mexican Dairy Association and government.

Consumption

Butter consumption for CY2002 is forecast to remain unchanged from our previous estimate as steady usage from the bakery and confectionary industries and the population in general is expected to slightly increase. For CY2001, the consumption estimate is revised slightly downward from our previous estimate due to more current information from dairy industry and government sources. Also LICONSA's social program will continue using increased amounts of butter fat when reconstituting milk for the lower level income population For CY2000, the consumption estimate remains unchanged reflecting final government data.

Trade

Butter imports for CY2002 are forecast to remain unchanged from our previous estimate. For CY2001, imports are revised upward to reflect more currant information from dairy industry and government sources. For CY2000, imports are revised upward to reflect final government data.

Stocks

Stocks for CY2002 are expected to be non-existent as they were for CY2001 and CY2000. Most butter is processed by industry and LICONSA for reconstituting milk powder, which is then sold at subsidized prices under the government's social program to primary schools and the poor through special sales outlets located in cities throughout the country.

Policy

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

Marketing

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

WHOLE MILK POWDER (WMP)

Production

Production data for WMP is not available, as official sources combine production figures of NDM and WMP. Selected processors, including dairy cooperatives, are attempting to increase WMP production to absorb seasonal oversupplies of fluid milk, however, due to limited processing facilities, Mexico will still have to complement domestic production with imports.

Consumption

The WMPconsumption forecast for CY2002 is revised upward from our previous estimate as domestic industry and LICONSA are reportedly utilizing more WMP in their processes. Also, much for the same reason as above in addition to more current information from dairy industry and goverment sources CY2001 and CY2000 consumption of WMP is revised upward. According to LICONSA, about 65 percent of the WMP and NDM is consumed by lower-income consumers. LICONSA foresees opening several new milk stores in the future since many families from the lower-income population continue to buy LICONSA milk at subsidized prices.

Stocks

Since production statistics for WMP are unavailable, stocks are not reflected in the PS&D table for WMP.

Trade

It is expected that Mexico will continue to import certain amounts of WMP in the short term because Mexico still needs to supplement domestic production with external supplies as domestic production is insufficient. The imports forecast of WMP for CY2002 is revised upward to reflect the increased consumption by industry and LICONSA's social program. Much for the same reason as above, imports of WMP for CY 2001 are revised upward from our previous estimate. Imports of WMP for CY2000 are revised slightly upward to reflect final 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.

POLICY

Since the signing of NAFTA, no import permits are required for dairy products. Tariffs are currently between two to four percent for dairy products other than fresh cheese, which has a 4 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 Secretaria de Economia.

Under the North American Free Trade Agreement (NAFTA), duty-free access to Mexico for the year 2001 is established at 50,670.8 metric tons of powdered milk from the United States. This amount grows at a three percent annual compound rate until 2003, when all imports will be duty free.

MARKETING

There are few major national distributors handling food products. They specialize in either frozen, refrigerated or dry groceries. To ensure the best coverage, US exporters should look to compliment the national distributors with regional distributors. Many Mexican dairy manufacturers have established self-distribution system to handle their own products. There are also some distributors that specialize in dairy products. Some foreign concerns have set up alliances with national manufacturers to distribute their products.

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 of 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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