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## Mexico

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### **Demand for Fortified Foods and Beverages is Booming**

**Report Categories:**

Food Processing Ingredients Sector

Market Development Reports

Retail Food Sector

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**Report Highlights:**

Mexico's health food sector continues to grow and specialize to keep pace with booming demand. During the last few years, a niche market for fortified foods known in Mexico as “functional foods” has exploded as Mexican consumers began focusing on improving their health. Currently every major food manufacturer in the country is looking to develop new products with specific health benefits in mind targeting the digestive system, cardiovascular health, preventing diabetes, and improving overall wellness. Market opportunities for fortifying ingredients are growing as well.

## General Information:

### SECTION I. MARKET OVERVIEW

The health and nutrition industries in Mexico are very closely related and have been traditionally divided into medicaments and foods. However, there is a group of substances that fall somewhere “in between” that do not have sufficient medical and scientific support to be called medicines but do have substantial health benefits proven through numerous studies. They have been sold under different names such as food supplements, nutraceuticals, fortified or enriched foods, functional foods, etc.

Although the domestic sector has not come to an agreement regarding what name to use for these types of products, the term “functional foods” is widely used among the food processing and retail sectors.

Fortified foods are consumed as part of a normal diet but these products contain biologically-active components that reduce the risk of certain diseases and provide additional health benefits beyond those provided by traditional nutrients. Some of these include proteins, vitamins, and minerals which are often times found naturally in food products but that often times needs to be replaced after the manufacturing process. In recent years, a wide variety of products including milk, yogurt, cold cuts, and cereals have been complemented with “functional” ingredients and their sales have skyrocketed in Mexico. During the last few years, sales of fortified products have reached annual growth rates of over 30 percent and have rapidly gained market share over similar non- fortified products.

Some examples of these fortified ingredients include:

Omega 3	Reduces blood pressure
Physillium	Reduces cholesterol
Prebiotics (inulina, oligofructosa)	Stimulates intestinal flora growth
Probiotics (Lactobasilus, bifido bacteria)	Favors intestinal function
Antioxidants (betacaroteno)	Neutralizaed free radicals
Isoflavonades	Reduce menopause symptoms

Food and beverage processors in Mexico are interested in penetrating this market and have put significant efforts in developing new innovative products. They are constantly looking for new “functional” ingredients to incorporate into their formulations and are increasing the types of products to fortify. Although local production currently covers 90 percent demand of finished products, import opportunities exist and remain strong for exporters of these fortified products. Also, the processing industry represents a growing opportunity for suppliers of ingredients for this nitch market.

Advantages	Challenges
Elimination of import duties by January	Unclear and incomplete legal framework regulating

2009 as specified under NAFTA	the production, sale and consumptions of these products
U.S. proximity to Mexico makes transportation costs lower than from other countries	Strong competition from local producers
New technologies and innovative products	Lack of awareness of all the benefits associated with these products
Growing demand for health products in general and this kind of products	Economic downturn preventing people from purchasing more expensive products
Positive perception of U.S. products quality	These products are more expensive than traditional products
Wide variety of ingredients not available locally	Lack of knowledge of U.S. brands by importers and retailers

## **SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS**

Mexico's health food sector continues to grow and specialize to keep pace with booming demand. During the last few years, a niche market for fortified foods known in Mexico as “functional foods” exploded as Mexican consumers began focusing on improving their health. Currently every major food manufacturer in the country is looking to develop new products with specific health benefits in mind targeting the digestive system, cardiovascular health, diabetes and overall wellness. Market opportunities for fortifying ingredients and finished products are growing as well.

Fortified foods and beverages are sold in all retail formats in Mexico from “mom and pop” stores, convenience stores, traditional supermarkets, club stores and even street vendors. In every little town and big city, you will find street vendors selling “Yakult” (the pioneer fortified dairy drink with special properties aimed at helping the digestive system) or Danone’s “Activia” drinking yogurt that claims to alleviate constipation if consumed regularly. However only supermarket chains and club stores currently carry imported fortified health products.

On the other hand, all major food and beverage manufacturers are constantly looking for new ingredients to include into their formulations. U.S. suppliers of fortified ingredients would be wise to tap into this market segment as business opportunities abound.

### **Entry Strategy**

New to market exporters should consider visiting Mexico and talking with buyers, retailers, distributors, processors and other players directly to be able to prepare an effective market approach. U.S. exporters are advised to study the market in order to evaluate their chances of succeeding in this market. They should also review import regulations affecting their products and find appropriate business contacts to successfully seize market opportunities and overcome challenges.

To find a reputable importer/distributor willing to handle your products is of utmost importance. Personal relationships are very important and are critical in the establishment of a successful and long lasting business partnership.

Large food and beverage manufacturers have well established distribution networks throughout the country and sell directly to the retail sector. They buy their ingredients either from local distributors or directly from the manufacturer. Occasionally they take an imported finished product and include it in their portfolio if it offers sufficient competitive advantages and market opportunities.

Other possible importers/distributors include:

- specialized importers/distributors of health food products selling to the retail sector;
- importers/distributors of ingredients for the food processing industry;
- a major health food chain such as NUTRISA or GNC that have their own stores strategically located throughout the country;
- major retail stores.

An affordable way to investigate the market is to participate in U.S. Pavilions organized by the U.S. agricultural trade offices in Mexico City and Monterrey at major Mexican trade shows held throughout the year. Contact information for the U.S. agricultural trade offices is found at the end of this report.

### **Market Size, Structure, Trends**

Worldwide eating habits have undergone substantial changes in both developed and developing countries leading to growing opportunities for health food industries. Currently Mexico is the second most obese country in the world (after the United States) and recent studies have shown growing incidences of diabetes, cardiovascular disease, cancers, and digestive problems among Mexican citizens. As a result, Mexicans are changing the way they eat. Although the health food sector has expanded rapidly over the past decade in Mexico, it is only in the past few years that it has focused on developing products that help prevent diseases and that promote overall wellness. The food and beverage industries have responded to this new demand by launching a new variety of fortified products that focus on supporting the digestive system, fighting cardiovascular disease, obesity, diabetes, stress, cancers, etc. The sales of these products in Mexico have skyrocketed in the last few years.

The fortified foods market is relatively new (2-3 years) but has rapidly gained market share over other traditional products. The dairy industry is the leader in the sector especially in the yogurt and milk categories. Although there is no solid market data regarding actual sales of these products, industry experts claim that their sales have been increasing rapidly, doubling shelf space in less than 2 years

and taking over traditional products shelf space at a fast pace.

Most of the ingredients used in the fortified foods market are developed by individual manufacturers and given brand names. The best selling products are those targeting the digestive system with the inclusion of probiotics such as “cassei shirota” found in “Yakult” that promotes healthy intestinal flora; and “actiregularis” in “Activia” from Danone, that prevents constipation. These are the two best selling products in this category. One of the newest products in the market is “gastro protect” a brand ingredient used by Nestle to alleviate gastritis.

The cereals industry is also entering this market with prebiotics such as “BioVive” used by Bimbo in packaged cookies and cereals added with fiber and lactobacillus by Kellogg called All-bran flakes “Yogufibras”. On the other hand, the cold cuts industry is integrating Omega 3 and 6 fatty acids in their products. The milk sector is venturing into this market with its “40 y Tantos” (over 40) made by Alpura that adds Omega 3 among other nutrients to the milk.

The sale of foods and beverages fortified with these ingredients has boomed and are taking over the market of similar products commonly sold over-the-counter in drugstores and in health sections within supermarkets. The food industry has been aggressively educating consumers with marketing campaigns in radio, TV and written press informing about the benefits their products can offer to the overall health of consumers. As a result of these efforts consumers are beginning to understand the benefits of such fortified products and are paying more attention to the labels to make more informed purchases.

Over 90 percent of the fortified foods sold in Mexico are produced locally. However, over 80 percent of the ingredients used to fortify food and beverages are imported from the United States and facing strong competition from China and India.

### **Company Profiles**

Companies such as Kellogg’s, through its “Health and Nutrition Institute” created in 2006, or LALA’s “Institute for Health Nutrition and Research” created in 2007, among many others, are committed to developing new products that improve health, nutrition and wellness for different consumer sectors. Yakult company is the pioneer and the leader in product sales (over 90 percent) within fermented beverages sector. The secret behind this product according to industry experts is that it targets all consumer sectors (kids, teenagers, adults, seniors) and both men and women. Activia (from Danone) marked a new era in the yogurt sector and accounts for roughly  $\frac{3}{4}$  of all fortified yogurt sales in the market.

Currently food processors are mainly buying isolated ingredients and creating their own formulations. There are a few large importer/distributors of fortifying ingredients that are trying to change this by working directly with the processors to develop private mixes. A tremendous growth is expected in this industry in the future and U.S. exporters of functional ingredients should take advantage of these growing market.

Some of the most popular fortified products available in the market are included in the following chart:

PRODUCT TYPE	BRAND NAME	MANUFACTURER
Fermented Beverages	Yakult and Yakult 40	Yakult
	Chamito	Nestle
	Bonacult	Bonafina Unifoods
	Svelty GastroProtect	Nestle
	Activia Flora	Danone
Yogurts	Activia	Danone
	Lala Vive	Lala
Cereals	Baby ceral	Nestle
	BioVive	Bimbo
	All Bran Yogufibra	Kellogs
Milk	40 y tantos	Alpura
	Lala Vive	Lala

### SECTION III. COSTS AND PRICES

The retail sector in Mexico is very price-oriented. All major retail chains such as WalMart, Soriana, Chedradui and Comercial Mexicana closely monitor their competitors' prices in an attempt to attract consumers. Fortified foods are on average 20 percent more expensive than other similar non-fortified products. Retail mark-up prices in Mexico are generally substantial but they depend on the type of product. The price of these products is based on competition and variations can be as much as 10-15 percent from one retailer to another. According to NAFTA all import tariffs for U.S. products reached zero on January 1, 2009. However, on March 18, 2009, the Secretariat of Economy (SE) published an announcement in the Mexican Federal Register modifying **import tariffs** [1] on 36 U.S. agricultural products resulting from the dissolution of the U.S.-Mexico Cross-Border Trucking Demonstration Project by the United States.

Fruit juices, for example, were slapped with a 15-20 percent import tariff much of which are fortified with calcium and other ingredients and minerals. Technically this action is only temporary. However, it is having a serious affect on immediate imports on the products on this list. Also, some restrictions may apply to products containing sugar if they are part of the USDA Sugar-Containing Products Re-Export Program. This program was designed to put U.S. manufacturers of sugar-containing products

on a level playing field in the world market and to facilitate the use of domestic refining capacity to export refined sugar into the world market.

It is important to carefully review the tariff codes under which the different products will be classified and obtain full information on other non-tariff barriers or restrictions that may apply at the time of entry. In order to be able to classify a product, the customs broker will require a letter with all of the product's components and percentages.

Mexico has a 15 percent value-added tax (VAT, or IVA in Spanish) except in the border cities where this tax is 10 percent. Mexican Customs collects the VAT on foreign transactions upon entry of the merchandise into the country. Customs brokers use the total figure to calculate their fees, which are usually 0.5 percent, on average, plus any storage and handling fees.

#### **SECTION IV. MARKET ACCESS**

Currently there is no clear legislation regarding the production and sales of fortified food products. However, it is important to consider that under NAFTA, imports of health foods considered as "food supplements" require a special import permit. A Sanitary Previous Import Permit is required, along with a Sanitary Certificate and a questionnaire on Good Sanitary Practices must be completed. This Secretariat of Health requirement is administered by COFEPRIS (Federal Commission for Health Risk Protection). See the contact section of this report for more information.

The basic Mexican import document is called a "Pedimento de Importación" (customs entry document), which must be presented to Mexican Customs along with the commercial invoice (in Spanish) and a bill of lading. Products qualifying as "North American" must be accompanied by the NAFTA certificate of origin to receive preferential treatment. This is issued by the exporter and does not have to be validated or formalized.

Mexican Customs laws are very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to employ competent, reputable Mexican importers or custom brokers.

Imported health foods to be sold in the retail sector must be labeled according to the Mexican government specifications in **NOM-051-SCFI-1994**, "General labeling specifications for pre-packaged foods and non-alcoholic beverages". Under this NOM, nutritional information is voluntary, unless a nutritional claim is made and in this case the label must be evaluated by COFEPRIS. This NOM applies to most food items and beverages. Some U.S. suppliers choose to develop special packaging for the Mexican market. At a minimum, a label must be affixed to each package of the exported

product prior to entering Mexico. All the information on the label must be in Spanish and must include the following data:

- Commercial/brand name
- Producer's name and address
- Exporter's name and address
- Country of origin (i.e., Product from de EE.UU.)
- Importer's name, address and RFC number (taxation number)
- Product description in Spanish
- Product description in English
- Preparation and handling instructions
- Net weight in metric units
- Date of expiration
- Ingredients
- Special warnings\*

It is important to note that this NOM is currently under revision and a new version is expected to be published soon mandating additional labeling requirements.

\*Effective January 7, 2004, all labels with special information will have to be translated by specialized translators authorized by the Secretariat of Health for such purposes. A list of these translators may be obtained through COFEPRIS. The translator must receive the original label (not translated) including the product's contents list and its formula. Based on this, the translated label will be amended based on the COFEPRIS' definition if the product is or not a food supplement.

The Agricultural Trade Offices in Mexico City and Monterrey provide services to help exporters gain access to this market. In addition to sponsoring U.S. Pavilions at various trade shows held throughout the year, these offices can provide information about local distributors and contacts, and arrange individual meetings for you in the country. For more information on available services please visit our website at [www.mexico-usda.com](http://www.mexico-usda.com).

General import procedures are highlighted in the following report [Food and Agricultural Import Regulations and Standards - Narrative Mexico Mexico 8-20-2009](#).

Some of the standards recently issued or currently under revision include NOM 051 labeling regulations; NOM 218 flavored nonalcoholic beverages; NOM 243 milk and milk products; and NOM 173 prepackaged fruit juices.



We also encourage you to visit the following reports:

- [SE Approves Fruit Juice Regulation Mexico Mexico 9-2-2009](#)
- [Mexico Publishes Labeling Regulations for Food and Beverages Mexico ATO Mexico 8-28-2009](#)
- [Mexico Proposes Labeling Changes for Food and Nonalcoholic Beverages Mexico ATO Mexico 8-6-2009](#)
- [Documentation Required by Mexico's Health Ministry Monterrey ATO Mexico 6-25-2009](#)
- [General Report Mexico ATO Mexico 6-1-2009 Food Processing](#)

## **SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

### **U.S. Agricultural Trade Office, Mexico City**

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### **U.S. Agricultural Trade Office, Monterrey**

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### **COFEPRIS-Comisión Federal para la Protección Contra Riesgos Sanitarios**

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**ANIPRON-Asociación Nacional de la Industria de Productos Naturales**

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<sup>[1]</sup> For more information on the latest Tariff Modifications, see the following GAIN report: MX9010 at

<http://www.fas.usda.gov/scriptsw/attacherep/default.asp>