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Mexico

Dairy, Livestock and Poultry

Mexico's Livestock Industry Struggles 1999

Approved by:

Lewis J. Stockard

U.S. Embassy, Mexico

Drafted by:

Sal Trejo

Report Highlights:

Much of Mexico's livestock industry will continue its struggle through the remainder of 1999 and well into the year 2000. In particular, cattle production levels remain stagnant and in many cases has been reduced considerably by the recent drought in the country's northern states. In response, imports have increased, resulting in Mexican producers' complaints of unfair trade by the U.S. Consequently, preliminary antidumping duties have been applied this year against U.S. beef, offals and live hogs shipped to Mexico. If maintained, these will continue to have a negative effect on U.S. exports.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Economic Situation and Outlook

The outlook for the Mexican economy has brightened in recent months. This optimism is based on a major rebound in world oil prices, the Government of Mexico's (GOM) conservative fiscal policy, and renewed stability in Russia, Asia, and Brazil. Mexico's exports for the first quarter of 1999 were up 6.6 percent, compared to the same period last year, and the trade deficit for the quarter decreased by 31.3 percent. Higher oil prices and a more robust U.S. economy are the primary reasons for these improvements. Imports, on the other hand, have only increased 4.4 percent during the first quarter of the year, largely because of the economic slowdown that began during the last quarter of 1998. After posting a US\$7.7 billion trade deficit last year, projections for 1999 call for a deficit ranging from US\$6 to US\$7 billion. The current account deficit is projected to be around US\$14.4 billion, a figure that would constitute a manageable 3.4 percent of GDP. If the peso continues to appreciate, however, imports are likely to increase significantly over the next few months, and the trade and current account deficits could end up being larger than they are now projected. Normally, there is a lag of two to three months between the time import orders are placed and goods are actually shipped. Annual inflation is currently below 15 percent and fast approaching the government target of 13 percent for 1999.

Higher oil prices have increased analysts' confidence in the government's fiscal target. The current average price of Mexican crude is significantly higher than the US\$9.25 per barrel used to draft the budget. If the higher price remains, the GOM would obtain a windfall, making it easier to attain the deficit target of 1.25 percent of GDP, while still having room to increase social expenditures as the country approaches the 2000 presidential elections. Current forecasts project an average oil price of around US\$11.00 per barrel for the year.

The reasons for optimism notwithstanding, it's important to keep in mind that the Mexican market tends to overreact to good or bad news, so that Mexico is now experiencing the positive side of that instability. The fundamentals of the economy, however, have not changed dramatically over the last few months, only the expectations. Thus, there is no guarantee that the short-term optimism will continue in the medium term. A deterioration of the trade accounts due to the overvalued peso could be the event that reverses the current optimism. Likewise, longer-term expectations will be affected by the country's political situation.

Furthermore, although the worst of the crises in Russia, Asia and Brazil seem to be over, those economies are not completely out of the woods yet and unexpected events from them could still cause some turmoil. Along similar lines, if the speculative bubble of the U.S. stock market bursts, financial markets of all emerging markets would also tumble. (Source: Economic Section, U.S. Embassy, Mexico)

Livestock Situation and Outlook

Cattle and Beef: Mexican cattle inventories are expected to decline in 2000 due largely to a stagnant-level calf crop and high slaughter rates, both reflecting the recent drought in northern Mexico. Domestic beef cattle production is revised downward in 1999 and is projected to remain unchanged for 2000 from the revised 1999 figure as cattlemen are discouraged by low profitability, considerable imports from the U.S. and large overdue loans. Domestic beef consumption in 2000 is forecast to remain unchanged from our estimate in 1999 as the general fear among the population that beef prices will increase due to the current compensatory duties placed on beef imports. It is expected that some consumers will turn to buying pork and chicken. Mexico is likely to continue importing high-quality beef cuts to meet demand from the tourist and restaurant sectors and lower-

value boxed beef for Mexico's large medium-to-lower income populations and street taco vendors.

Of particular note, on August 2 the Government of Mexico (GOM) published a preliminary determination in the antidumping case against imports of cattle, beef and offals from the United States. As a result, antidumping duties ranging from 4.14 percent to a high of 214.5 percent have been applied to U.S. beef imports. Live cattle were exempted from the decision, as were carcasses from certain U.S. suppliers. The basis of the preliminary decision was a finding of price discrimination and injury to the Mexican beef industry. The investigation will continue and all interested parties may submit questionnaires, final arguments and additional evidence until September 13. A final determination is expected some six months later, following a public hearing which is likely to be held sometime in November-December (See MX9100). Prior to this action, there was no duty or quota restricting access for U.S. beef to Mexico. In 1998, U.S. beef shipments to Mexico reached a record \$351.8 million, not including \$85.6 million of live cattle.

Live Hogs and Pork: The number of swine farms and animals is expected to decline for 2000 because of higher production costs, particularly for imported feedstuffs. The competitive prices of imported pork meat products, which is currently offsetting the drop in live slaughter hog imports, is accelerating the concentration of the industry towards fewer and larger vertically integrated swine companies. The currently improving consumer purchasing power is creating demand for pork and pork products, especially variety meats. Although pressured by domestic pork producers, main domestic importers such as leading sausage and cold meats companies favor imported U.S. product due to consistency, quality, food safety controls of U.S. pork and attractive prices.

Record shipments of U.S. live hogs to Mexico came to a virtual halt when, on February 1, the GOM published a preliminary resolution in the antidumping complaint against exporters of U.S. live hogs. The Secretariat of Commerce and Industrial Development (SECOFI) found under-pricing of live hogs from certain U.S. suppliers, as well as the threat of injury to the Mexican swine industry. Then on June 23, SECOFI announced a change to the preliminary resolution which specified that the antidumping duty is to be applied on a per-kg live-weight basis and applies to all live slaughter hogs shipped from the U.S. regardless of country of origin. (See MX9080)

Sheep & Goats: Sheep and goat inventories are forecast to increase in 2000 due to improved support from the GOM and increased returns. Consumption of sheep meat is expected to decrease in 1999 from our previous estimate due to attractive beef prices and consumer preference for beef and other meats. However, for 2000 we forecast a slight increase in sheep meat consumption as the antidumping duties on U.S. beef will entice some consumers to return to sheepmeat.

Hides & Skins: Production of hides and skins remain unchanged from our previous estimate in 1999, and is forecast to slightly increase in 2000 because of increased slaughter rates caused by the recent drought in northern Mexico, and because of improved leather producer prices.

Tallow: Tallow production is forecast to slightly increase in 2000 due to higher slaughter rates, although a large portion of the cattle currently sent to slaughter are very thin because of the recent drought, thus rendering less tallow. Imports of tallow are expected to continue at high levels, but no increase is expected for 1999 and 2000 as current import and domestic production levels appear to satisfy current demand from feed companies which use tallow as an feed ingredient.

It should be noted that on July 21, Mexico published a new proposed rule (NOM-060) which would prohibit the use of imported rendered products in animal feed from countries with BSE or scrapie, or unless treated at high

temperature and pressure. (See MX9092)

SECTION II. STATISTICAL TABLES

PS&D, Animal Numbers, Cattle

(1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	Cattle					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/98		01/99		01/00	
Total Cattle Beg. Stks	25628	25628	24928	24859		24159
Dairy Cows Beg. Stocks	2200	2200	2200	2200		2200
Beef Cows Beg. Stocks	11200	11200	11300	11200		11200
Production (Calf Crop)	8400	8400	8800	8500		8500
Intra EC Imports	0	0	0	0		0
Other Imports	300	246	400	300		300
TOTAL Imports	300	246	400	300		300
TOTAL SUPPLY	34328	34274	34128	33659		32959
Intra EC Exports	0	0	0	0		0
Other Exports	700	715	800	700		700
TOTAL Exports	700	715	800	700		700
Cow Slaughter	1600	1600	1600	1600		1600
Calf Slaughter	1600	1600	1600	1600		1600
Other Slaughter	4800	4800	4900	4900		5000
Total Slaughter	8000	8000	8100	8100		8200
Loss	700	700	700	700		700
Ending Inventories	24928	24859	24528	24159		23359
TOTAL DISTRIBUTION	34328	34274	34128	33659		32959

PS&D, Meat, Beef and Veal

(1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Meat, Beef and Veal					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
Beginning Stocks	0	0	0	0		0
Slaughter (Reference)	8000	8000	8100	8100		8100
Production	1800	1800	1900	1900		1900
Intra EC Imports	0	0	0	0		0
Other Imports	225	222	200	190		190
TOTAL Imports	225	222	200	190		190
TOTAL SUPPLY	2025	2022	2100	2090		2090
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	1988	1988	2070	2070		2070
Other Use, Losses	37	34	30	20		20
TOTAL Dom. Consumption	2025	2022	2100	2090		2090
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	2025	2022	2100	2100		2100

PS&D, Animal Numbers, Swine

(1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	Animal Numbers, Swine					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
TOTAL Beginning Stocks	10520	10520	10740	10860		10225
Sow Beginning Stocks	900	900	900	900		900
Production (Pig Crop)	14700	14700	14750	14750		14800
Intra EC Imports	0	0	0	0		0
Other Imports	40	245	75	175		75
TOTAL Imports	40	245	75	175		75
TOTAL SUPPLY	25260	25465	25565	25785		25100
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Sow Slaughter	20	20	15	15		15
OTHER SLAUGHTER	13000	13085	14045	14045		14050
Total Slaughter	13020	13105	14060	14060		14070
Loss	1500	1500	1500	1500		1500
Ending Inventories	10740	10860	10005	10225		9530
TOTAL DISTRIBUTION	25260	25465	25565	25785		25100

PS&D, Swine, Meat

(1000 Head) (K Metric Tons)

PSD Table							
Country:		Mexico					
Commodity:		Swine, Meat					
		1998		1999		2000	
		Old	New	Old	New	Old	New
Calendar Year Begin		01/1998		01/1999		01/2000	
Beginning Stocks		0	0	0	0		0
Slaughter (Reference)		13020	13020	13280	14015		14050
Production		950	950	970	970		980
Intra EC Imports		0	0	0	0		0
Other Imports		61	97	50	75		75
TOTAL Imports		61	97	50	75		75
TOTAL SUPPLY		1011	1047	1020	1045		1055
Intra EC Exports		0	0	0	0		0
Other Exports		21	21	30	30		30
TOTAL Exports		21	21	30	30		30
Human Dom. Consumption		990	1026	990	1015		1025
Other Use, Losses		0	0	0	0		0
TOTAL Dom. Consumption		990	1026	990	1015		1025
Ending Stocks		0	0	0	0		0
TOTAL DISTRIBUTION		1011	1047	1020	1045		1055

PS&D, Animal Numbers, Sheep

(1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	Animal Numbers, Sheep					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
TOTAL Beginning Stocks	14413	14413	14700	14714		15076
Ewes, Beginning Stocks	8875	8875	8875	8875		8875
Production (Lamb Crop)	11275	11275	11275	11275		11275
Intra EC Imports	0	0	0	0		0
Other Imports	475	489	490	490		490
TOTAL Imports	475	489	490	490		490
TOTAL SUPPLY	26163	26177	26465	26479		26841
Intra EC Exports	0	0	0	0		0
Other Exports	3	3	3	3		3
TOTAL Exports	3	3	3	3		3
Ewe Slaughter	1000	1000	1000	1000		1000
Lamb Slaughter	3500	3500	3500	3500		3500
Other Slaughter	4260	4260	4400	4400		4400
Total Slaughter	8760	8760	8900	8900		8900
Loss	2700	2700	2500	2500		2500
Ending Inventories	14700	14714	15062	15076		15438
TOTAL DISTRIBUTION	26163	26177	26465	26479		26841

PS&D, Sheep Meat, Lamb, Mutton and Goat

(1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Sheep Meat, Lamb, Mutton and Goat					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
Slaughter (Reference)	8300	8300	8300	8300		8300
Beginning Stocks	0	0	0	0		0
Production	140	102	140	105		110
Intra EC Imports	0	0	0	0		0
Other Imports	25	27	25	30		35
TOTAL Imports	25	27	25	30		35
TOTAL SUPPLY	165	129	165	135		145
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	165	129	165	135		145
Other Use, Losses	0	0	0	0		0
TOTAL Dom. Consumption	165	129	165	135		145
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	165	129	165	135		145

PS&D, Hides and Skins, Bovine

(1000 Pieces) (K Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	Hides and Skins, Bovine					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
Beginning Stocks	0	0	0	0		0
Production In MT	170	170	170	170		175
Production In Pieces	8550	8550	8550	8550		8555
Intra EC Imports	0	0	0	0		0
Other Imports	110	110	115	115		115
TOTAL Imports	110	110	115	115		115
TOTAL SUPPLY	280	280	285	285		290
Intra EC Exports	0	0	0	0		0
Other Exports	5	5	5	5		5
TOTAL Exports	5	5	5	5		5
Domestic Consumption	275	275	280	280		285
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	280	280	285	285		290

PS&D, By-Products, Tallow and Grease

(1000 Metric Tons)

PSD Table						
Country:	Mexico					
Commodity:	By-Products, Tallow & Grease					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/1998		01/1999		01/2000	
Beginning Stocks	0	0	0	0		0
Production	75	75	75	75		80
Intra EC Imports	0	0	0	0		0
Other Imports	275	275	275	275		275
TOTAL Imports	275	275	275	275		275
TOTAL SUPPLY	350	350	350	350		355
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Domestic Consumption	350	350	350	350		355
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	350	350	350	350		355

Mexico Harmonized Import Tariff Schedule for 1999

Live Animals and Meat Duty Rates

H.S. Tariff Description	NAFTA	Colombia	Venezuela	Costa Rica	Bolivia	Chile	Nicaragua	GATT
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Live bovine animals 0102.10.01 Purebred breeding animals	0	0	0	0	0	0	0	3
0102.90.01 Dairy cows	0	0	0	0	0	0	0	3
0102.90.02 Live animals of the bovine species, with pedigree or selected breed certificate other than those falling within subdivision 0102.90.01	0	0	0	0	0	0	0	3
0102.90.03 Live animals of the bovine species, for slaughter purposes when imported by "Industrial de Abastos (IDA) a parastatal slaughterhouse	0	6.4	6.4	7.5	7.5	0	13.5	18
0102.90.99 Others	0	6.4	6.4	7.5	7.5	0	13.5	18
Live swine animals 0103.10.01 Purebred breeding animals	0	0	0	0	0	0	0	3
0103.91.01 Hogs with pedigree or selected breed certificate, weighing less than 50 kgs.	0	4.3	4.3	0	5	0	8	10
0103.91.99 Others	8	8.6	8.6	10	10	0	16	23
0103.92.01 Hogs with pedigree or selected breed certificate, weighing more than 50 kgs.	0	4.3	4.3	0	5	0	8	10
0103.92.02 Live hogs weighing more than 110 kgs. Other than those falling within subdivision 0103.92.01	8	8.6	8.6	10	10	0	16	23
0103.92.99 Others	8	8.6	8.6	10	10	0	16	23
Live sheep and goats 0104.10.01 Sheep with pedigree or selected breed certificate	0	0	0	0	0	0	0	3
0104.10.02 Sheep for slaughter	4	4.3	4.3	0	5	0	8	13
0104.10.99 Others	4	4.3	4.3	0	5	0	8	13
0104.20.01 Goats with pedigree or selected breed certificate	0	0	0	0	0	0	0	3
0104.20.99 Others	0	4.3	4.3	0	5	0	8	13
Meat of bovine 0201.10.01 Carcasses and half-carcasses, fresh or chilled	0	0	0	17	0	0	18	20
0201.20.99 Other cuts with bone-in, fresh or chilled	0	0	0	10	0	0	18	20
0201.30.01 Other cuts boneless, fresh or chilled	0	0	0	10	0	0	18	20
0202.10.01 Carcasses and half-carcasses, frozen	0	0	0	21.2	0	0	22.5	25
0202.20.99 Other cuts with bone-in, frozen	0	0	0	21.2	0	0	22.5	25

0202.30.01 Other cuts boneless, frozen	0	0	0	21.2	0	0	22.5	25
Meat of swine, fresh or chilled 0203.11.01 Carcasses and half-carcasses	8	0	0	10	0	0	0	20
0203.12.01 Hams, shoulders and cuts thereof, with bone-in	8	0	0	10	10	0	0	20
0203.19.99 Others	8	0	0	10	10	0	0	20
0203.21.01 Carcasses and half-carcasses, frozen	8	0	0	10	0	0	0	20
0203.22.01 Hams, shoulders and cuts thereof, with bone-in, frozen	8	0	0	10	10	0	0	20
0203.29.99 Others, frozen	8	0	0	10	10	0	0	20
Meat of sheep, fresh, or chilled 0204.10.01 Lamb carcasses and half-carcasses	4	4.3	4.3	0	5	0	8	10
0204.21.01 Carcasses and half-carcasses of sheep	4	4.3	4.3	0	5	0	8	10
0204.22.99 Other cuts with bone-in	4	4.3	4.3	0	5	0	8	20
0204.23.01 Other cuts, boneless	4	4.3	4.3	0	5	0	8	10
0204.30.01 Carcasses and half-carcasses of lamb, frozen	4	4.3	4.3	0	5	0	8	10
0204.41.01 Carcasses and half-carcasses of sheep, frozen	4	4.3	4.3	0	5	0	8	10
0204.42.99 Other cuts with bone-in	4	4.3	4.3	0	5	0	8	10
0204.43.01 Other cuts, boneless	4	4.3	4.3	0	5	0	8	10
0204.50.01 Meat of goats	4	4.3	4.3	0	5	0	8	10

Source: Secretariat of Trade and Industrial Development (SECOFI), published in the *Diario Oficial* (Federal Register) dated December 31, 1998.

Table 2
Grass Fed Live Steer Average wholesale Prices in Mexico City
(Pesos per Kg.)

Month	1997	1998	% Change
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Jan	11.19	12.46	11.3
Feb	11.32	12.47	10.1
Mar	11.37	12.48	9.8
Apr	11.61	12.47	7.4
May	11.62	12.52	7.7
Jun	11.65	12.39	6.3
Jul	11.72	12.43	6.1
Aug	11.89	12.64	6.3
Sep	11.98	12.61	5.3
Oct	12.14	12.71	4.7
Nov	12.15	13.05	7.4
Dec	12.29	13.07	6.3

Table 3
Beef Carcass Average Wholesale Prices in Mexico City
(Pesos per Kg.)

Month	1997	1998	% Change
Jan	17.51	19.14	9.3
Feb	17.69	19.37	9.5
Mar	17.78	19.45	9.4
Apr	17.92	19.47	8.6
May	17.95	19.47	8.5
Jun	18.07	19.22	6.4
Jul	18.06	19.23	6.5
Aug	18.16	19.59	7.9
Sep	18.40	19.45	5.7
Oct	18.66	20.47	9.7
Nov	18.79	19.47	3.6
Dec	18.93	19.50	3.0

Table 4
Beef Average Retail Prices in Mexico City
(Pesos per Kg.)

Month	1997	1998	% Change
Jan	20.61	19.14	-7.7
Feb	21.86	19.37	-12.8
Mar	21.90	19.45	-12.6
Apr	22.09	19.47	-13.4
May	21.40	19.42	-10.2
Jun	21.48	19.22	-11.7
Jul	21.42	19.23	-11.4
Aug	21.94	19.59	-12.0
Sep	21.85	19.95	-9.5
Oct	22.02	20.47	-7.6
Nov	21.98	21.04	-4.5
Dec	22.10	22.03	-0.3

Table 5
Finished Live Hog Wholesale Prices in Mexico City
(Pesos per Kg.)

Month	1997	1998	% Change
Jan	12.60	11.42	-10.3
Feb	12.30	10.09	-21.9
Mar	11.82	9.55	-23.8
Apr	12.00	9.69	-23.8
May	12.51	10.21	-22.5
Jun	13.91	12.08	-15.1
Jul	13.56	11.41	-18.8
Aug	13.55	11.01	-23.1
Sep	13.15	10.79	-21.9
Oct	11.25	10.29	-9.3
Nov	11.34	9.80	-15.7
Dec	12.31	10.41	-18.2

Table 6
Pork Carcass Average Wholesale Prices in Mexico City
(Pesos per Kg.)

Month	1997	1998	% Change
Jan	19.56	16.10	-21.5
Feb	18.70	14.42	-29.7
Mar	17.42	13.92	-25.1
Apr	17.57	13.90	-26.4
May	17.73	14.80	-19.8
Jun	19.62	16.61	-18.1
Jul	17.61	15.86	-11.0
Aug	17.29	14.77	-17.1
Sep	16.97	14.39	-17.9
Oct	16.07	14.12	-13.8
Nov	15.85	13.60	-16.5
Dec	17.01	17.00	0

Source: National Market Information Service (SNIM)

Exchange rate (August 1, 1999) USD\$1.00 = \$9.50 Pesos

NOTE: Due to current change of office and personnel at SNIM, the prices for all meat products have not been consolidated nor published on a monthly basis and were, therefore, not available at the time of writing this report.

Table 7

<i>Animal Numbers, CATTLE</i>			UNITS: <i>Head</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	714,347	286,215	U.S.	193,803	29,498
OTHER			OTHER		
			CANADA	5,507	1,535
			AUSTRALIA	5,317	0
TOTAL OF OTHER	0	0	TOTAL OF OTHER	10,824	1,535
OTHERS NOT LISTED	978	244	OTHERS NOT LISTED	2,132	0
GRAND TOTAL	715,325	286,459	GRAND TOTAL	206,759	31,033

Table 8

<i>Meat, Beef & Veal</i>			UNITS: <i>Metric Tons</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	525	290	U.S.	211,570	49,780
OTHER			OTHER		
			CANADA	4,318	2,402
TOTAL OF OTHER	0	0	TOTAL OF OTHER	4,318	2,402
OTHERS NOT LISTED	69	10	OTHERS NOT LISTED	5,622	1,580
GRAND TOTAL	594	300	GRAND TOTAL	221,510	53,762

Table 9

<i>Animal Numbers, SWINE</i>			UNITS: <i>Head</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	0	0	U.S.	239,268	102,236
OTHER			OTHER		
			CANADA	5,666	723
TOTAL OF OTHER	0	0	TOTAL OF OTHER	5,666	723
OTHERS NOT LISTED	0	0	OTHERS NOT LISTED	618	0
GRAND TOTAL	0	0	GRAND TOTAL	245,552	102,959

Table 10

<i>Meat, SWINE</i>			UNITS: <i>Metric Tons</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	13,753	4,612	U.S.	82,088	20,067
OTHER			OTHER		
			CANADA	8,646	3,111
CUBA	604	35			
TOTAL OF OTHER	604	35	TOTAL OF OTHER	8,646	3,111
OTHERS NOT LISTED	7,115	1,423	OTHERS NOT LISTED	357	173
GRAND TOTAL	21,472	6,070	GRAND TOTAL	91,091	23,351

Table 11

<i>Animal Numbers, SHEEP</i>	UNITS: <i>Head</i>
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EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	2,966	0	U.S.	405,093	90,203
OTHER			OTHER		
			CANADA	264	100
			AUSTRALIA	83,579	0
TOTAL OF OTHER	0	0	TOTAL OF OTHER	83,843	100
OTHERS NOT LISTED	0	0	OTHERS NOT LISTED	0	0
GRAND TOTAL	2,966	0	GRAND TOTAL	488,936	90,303

Table 12

<i>Meat, LAMB, MUTTON & GOAT</i>			UNITS: <i>Metric Tons</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*
U.S.	0	0	U.S.	2,838	841
OTHER			OTHER		
			AUSTRALIA	16,699	5,332
TOTAL OF OTHER	0	0	TOTAL OF OTHER	16,699	5,332
OTHERS NOT LISTED	0	0	OTHERS NOT LISTED	7,705	2,520
GRAND TOTAL	0	0	GRAND TOTAL	27,242	8,693

Table 13

<i>By-Products, Tallow & Grease</i>			UNITS: <i>Metric Tons</i>		
EXPORTS TO:			IMPORTS FROM:		
U.S.	2,966	0	U.S.	300,835	79,817
OTHER			OTHER		
CUBA			CANADA	13,989	4,996
TOTAL OF OTHER	0	0	TOTAL OF OTHER	13,989	4,996
OTHERS NOT LISTED	0	0	OTHERS NOT LISTED	20,340	0
GRAND TOTAL	2,966	0	GRAND TOTAL	314,845	84,813

Table 14

<i>Hides & Skins, Bovine</i>			UNITS: <i>Metric Tons</i>		
EXPORTS TO:	1998	1999*	IMPORTS FROM:	1998	1999*

U.S.	483	41	U.S.	92,168	20,780
OTHER			OTHER		
			GUATEMALA	4,779	1,523
			URUGUAY	1,685	505
			HONDURAS	2,581	617
TOTAL OF OTHER	0	0	TOTAL OF OTHER	9,206	2,645
OTHERS NOT LISTED	30	0	OTHERS NOT LISTED	5,220	1,108
GRAND TOTAL	513	41	GRAND TOTAL	106,433	24,533

Source: "SIC-M" , SECOFI/BANCOMEXT, 1998/1999.

* As of March 1999

IMPORTS

H.S. Tariff Description	1997		1998		1999*	
	Value	Volume	Value	Volume	Value	Volume
Live bovine animals. 0101.11.01 Purebred breeding animals.	1,083,035	613	39,907,522	39,155	8,196,919	8,152
0102.90.01 Cows for dairy purposes.	21,643,051	19,029	20,184,354	17,169	4,619,449	4,300
0102.90.02 Other. With pedigree or high registration certificate, except that under subheading 0102.90.01.	2,837,815	2,837	294,045	1,018	48,000	40
0102.90.03 Other. Bovine animals for supply, when imported by Wholesale Industry.	0	0	0	0	0	0
0102.90.99 Other.	118,092,354	242,771	86,505,818	188,572	12,304,232	26,693
Live swine 0103.10.01 Purebred breeding animals	7,435,277	18,040	4,152,355	10,490	704,478	2,437
0103.91.01 Weighing less than 50 kg each With pedigree or high registration certificate.	0	0	0	0	0	0

0103.91.99 Weighing less than 50 kg each. Other.	0	0	25,789	1,513	69,910	1,953
0103.92.01 Weighing 50 kg or more each With pedigree or high registration certificate.	148,975	720	0	0	0	0
0103.92.02 Weighing more than 110 kg, except that under subheading 0103.92.01.	0	0	29,239	322	0	0
0103.92.99 Other.	685,467	8,185	11,949,737	233,227	7,049,866	98,569
Live sheep and goats 0104.10.01 Sheep With pedigree or high registration certificate.	11,242,253	169,442	5,577,780	83,164	137,512	140
0104.10.02 Sheep For supply.	5,461,923	295,346	6,592,363	310,194	2,054,188	74,999
0104.10.99 Other.	97,461	1,169	21,555	461	0	0
0104.20.01 Goats With pedigree or high registration certificate	153,592	1,014	35,709	475	58,800	227
0104.20.99 Other.	1,279,863	82,799	1,911,120	94,642	307,649	14,937
Meat of bovine animals, fresh or chilled 0201.10.01 Carcasses and half-carcasses	9,509,144	5,189,715	13,057,151	7,429,822	2,989,921	1,695,134
0201.20.99 Other cuts with bone in	33,558,556	17,478,233	39,279,223	20,997,190	8,024,685	4,037,899
0201.30.01 Boneless.	265,432,790	104,648,315	392,433,457	166,318,180	101,776,521	41,720,395
0202.10.01 Carcasses and half-carcasses.	47,984	29,281	2,239	1,021	0	0
0202.20.99 Other cuts with bone in, frozen	7,063,321	3,106,798	7,899,371	3,911,854	2,028,268	1,062,334
0202.30.01 Boneless frozen	32,560,475	13,695,806	44,175,772	22,852,331	10,068,860	5,247,051

Meat of swine, fresh, chilled, or frozen 0203.11.01 Carcasses and half-carcasses	11,540,363	6,873,394	12,332,349	10,937,682	2,989,846	3,146,988
0203.12.01 Hams, shoulders and cuts thereof, with bone in.	15,614,686	16,236,844	30,404,641	37,584,305	5,483,795	7,946,857
0203.19.99 Other.	10,046,111	8,364,780	14,241,856	13,771,103	3,339,125	3,381,464
0203.21.01 Carcasses and half-carcasses frozen	364,817	342,728	85,403	86,386	0	0
0203.22.01 Hams, shoulders and cuts thereof, with bone in. Frozen	3,139,251	2,648,962	6,866,524	7,929,954	999,281	1,452,452
0203.29.99 frozen Other.	13,514,028	13,400,677	14,882,779	20,781,688	4,290,610	7,424,233
Meat of sheep or goats, fresh, chilled or frozen 0204.10.01 Carcasses and half-carcasses of lamb, fresh or chilled.	3,563	15,363	10,269	23,936	0	0
0204.21.01 Carcasses and half-carcasses.	132,449	73,653	32,005	23,402	20,542	16,065
0204.22.99 Other cuts with bone in.	409,091	140,747	385,790	157,961	40,310	26,281
0204.23.01 Boneless.	37,425	16,699	6,826	940	1,654	61
0204.30.01 Carcasses and half-carcasses of lamb, frozen.	1,397,708	955,930	1,304,444	1,170,278	404,905	384,001
0204.41.01 Carcasses and half-carcasses.	10,393,852	8,338,933	9,983,312	9,491,048	2,487,571	2,713,561
0204.42.99 Other cuts with bone in.	17,002,061	11,930,592	18,167,818	15,987,936	5,512,965	5,462,837
0204.43.01 Boneless.	116,081	74,845	150,818	89,378	33,706	16,552
0204.50.01 Meat of goats.	103,430	60,037	429,360	297,899	91,016	732
0511.1001 Semen, bovine	7,119,716	9,915	7,504,756	9,444	1,697,564	1,395
1501.00.01 Lard, porcine	19,137,337	26,722,360	16,971,688	27,717,630	4,113,111	7,888,874

1502.00.01 Beef tallow	114,673,309	225,043,756	150,939,549	314,844,796	35,800,131	84,812,851
4101.10.01 Hides and skins under or equal to 8 kg. dried, 12 kg. salted dried and 14 kg. for wets and salted.	2,961,356	3,772,357	2,476,151	1,988,612	306,089	381,444
4101.21.01 Hides and skins whole	127,455,207	88,249,733	123,767,159	98,817,658	26,949,407	22,661,272
4101.30.99 Hides and skins, others	2,595,496	3,796,915	3,262,094	5,625,471	765,878	1,491,045

Source: "SIC-M" , SECOFI/BANCOMEXT, 1998/1999.

* As of March 1999

EXPORTS

1999

H.S. Tariff Description	1997		1998		1999*	
	Value	Volume	Value	Volume	Value	Volume
Live bovine animals 0102.10 Purebred breeding animals.	367,201	1,343	221,477	381	422,822	269
0102.90 Other.	197,930,891	665,317	209,661,617	714,944	85,179,404	286,190
Live Swine animals 0103.10 Purebred breeding animals	169,877	419	0	0	0	0
Live sheep and goats 0104.10 Sheep	131,078	2,913	158,879	2,966	0	0
0104.20 Goats	0	0	0	0	0	0
Meat of bovine animals, fresh or chilled 0201.10 Carcasses and half-carcasses	0	0	0	0	0	0
0201.20 Other cuts with bone in	0	0	243,495	44,162	151,365	30,500
0201.30 Boneless	1,688,737	282,306	2,829,469	429,568	1,054	258,891
Meat of bovine animals, frozen 0202.10 Carcasses and half-carcasses	0	0	0	0	0	0

0202.20 Other cuts with bone in	4,793	1,835	47,376	4,067	0	0
0202.30 Boneless	48,670	19,624	491,604	116,170	14,858	10,247
Meat of swine, fresh, chilled, or frozen						
0203.11 Carcasses and half-carcasses	1,737	728	0	0	0	0
0203.12 Hams, shoulders and cuts thereof, with	0	0	182,447	87,142	114,585	33,362
0203.19 Other	1,932,545	380,301	6,759,212	1,921,878	2,029,152	623,971
0203.21 Carcasses and half-carcasses	0	0	0	0	0	0
0203.22 Hams, shoulders and cuts thereof, with	728,488	216,280	6,621,355	1,879,643	937,783	360,957
0203.29 Other	85,431,473	21,813,685	58,579,326	17,583,442	16,597,010	5,043,138
Meat of sheep or goats, fresh, chilled or frozen						
0204.10 Carcasses and half-carcasses of lamb, fresh	895	7,300	0	0	0	0
0204.21 Carcasses and half-carcasses	0	0	0	0	0	0
0204.22 Other cuts with bone in	0	0	0	0	0	0
0204.23 Boneless	0	0	0	0	0	0
0204.30 Carcasses and half-carcasses of lamb	0	0	0	0	0	0
0204.41 Carcasses and half-carcasses	0	0	0	0	0	0
0204.42 Other cuts with bone in	74,014	19,642	552	15	0	0
0204.43 Boneless	0	0	0	0	0	0
0204.50 Meat of goats	0	0	0	0	0	0
0511.10 Semen, bovine	0	0	161,436	2,792	0	0

1501.00 Lard, porcine	46,170	47,181	86,691	91,403	37,806	35,826
1502.00 Beef tallow	333,996	429,301	251,614	334,705	25,302	36,050
4101.10 Hides and skins with less than 8 kg. dried, 10 kg. dry salted and 14 kg. wet salted	0	0	176,265	29,658	2,159	389
4101.21 Hides and skins whole	1,310,152	648,418	188,418	145,911	30,271	21,405
4101.30 Hides and skins, others	182,906	86,615	845,575	337,892	50,219	19,303

Source: "SIC-M" SECOFI/BANCOMEXT, 1998/1999.

* As of March 1999.

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

CATTLE

Production

The cattle production estimate for 1999 is revised downward from our previous estimate by 3.5 percent. The high cost of money, rising feed costs, and the conditions caused by the recent drought in northern Mexico are

the main factors causing this downward trend. Production forecast for 2000 is unchanged from the estimate of 1999.

Cattle inventories are forecast to decline for 2000 due to greater slaughter rates reflecting the recent drought in northern Mexican states. A reduced calf crop in 1998 caused by lower fertility levels will contribute to further reduce ending inventories for 1999 and 2000. Feedlot placements have also declined because of the current drought and rising feedstuff prices. Overdue loans, tight credits, and low profitability discourage capitalization and modernization of the cattle and beef sectors.

Mexico has 149 TIF (federally inspected) slaughter plants of which 36 are currently accredited by USDA/FSIS to export beef to the United States. However, recently 8 of 10 plants inspected by FSIS inspectors were found to be deficient in various points and 5 of these plants were delisted until corrective measures were taken and verified. Rather than constructing new TIF plants, the Secretariat of Agriculture, Livestock and Rural Development (SAGAR) reports that some non-TIF plants, particularly sausage and packing plants, are rebuilding facilities to convert into TIF plants. Their main interest is to export products to the U.S. and other markets.

Consumption

As a result of adequate beef supplies and competitive retail prices, domestic consumption is anticipated to increase in 2000. However, most of this increase will be in regional markets in northern Mexico where dry conditions forced ranchers to send animals to slaughter. In Mexico City, trade sources report that per-capita beef consumption, which is currently about 15 kilograms per year, is increasing slightly due to improving consumer purchasing power and substitution of variety meats and vegetables for all type of meats.

Trade

Live feeder cattle imports are presently not attractive because of the recent drought and the continued tight credit situation. For this reason, imports in 2000 are forecast to remain unchanged from the revised figure in 1999. For 1998, the import estimate has been revised slightly downward to reflect official government figures. Now that the Mexican economy is returning to positive growth, beef consumption is expected to rise faster than domestic production.

The United States is the leading exporter of beef to Mexico, with approximately 95.5 percent of the market. In 1998, Mexico imported more than 222,000 metric tons of U.S. beef, ranging from the finer cuts to beef brains, tripe and tongue, worth a total of some 497 million dollars. High quality U.S. beef cuts continue to be competitive with the upper income classes and the tourist sector, and imports of round and chuck cuts by domestic supermarkets continue to increase. Imports of U.S. beef in the year 2000 are anticipated to remain unchanged from our current 1999 estimate due to the expected negative impact of the antidumping duties imposed as of August 3. The 1998 beef import estimate is revised slightly downward to reflect official government figures.

As a result of the recent drought, Mexico is expected to decrease slaughter cattle exports to the United States in 1999 from our previous estimate by over 14 percent. Exports in 2000 should remain unchanged from our revised estimate in 1999 due to stagnant calf crop and inability of some central and southern states to meet U.S.

animal health standards. Estimated exports for 1998 are revised upward to reflect official government data. As a result of exports and slaughter rates, ending inventories for 1998 are revised slightly downward. For 1999 our previous ending stock estimate is revised downward, and for 2000 we are expecting further reductions.

Utilization of GSM-103 export credit guarantees remains scant because the program is not considered as profitable for the Mexican banks as alternatives operated by other public developing banks. Also, many Mexican banks do not want to participate because of the perceived high risk. Furthermore, most cattlemen are unable to individually participate because of the minimum purchase requirement of \$100,000.

Policy

On August 2, SECOFI published in the Mexican Federal Register (*Diario Oficial*) a preliminary finding of dumping against exporters of U.S. beef and offals. As a result, antidumping tariff rates of up to 214.52 percent were imposed to compensate for allegations of artificially low prices and damage to the Mexican industry. Only U.S. live cattle. SECOFI specifically cited Farmland National Beef Packing Co., ConAgra, Inc., IBP Inc. and Excel Corp. as U.S. suppliers to which lower tariffs are to be applied. The highest tariff of 214.42 percent was placed on imports of edible beef offals, except for frozen livers and tongues which were given tariffs of up to 106.24 percent and 198.07 percent, respectively. The antidumping duties announced are preliminary and SECOFI is still investigating price discrimination margins for beef and variety meats from U.S. suppliers, as well as the threat of injury to the Mexican livestock industry. Additional arguments and evidence can be submitted until September 13 by both U.S. exporters and Mexican importers, followed by a public hearing some two months later, and a final determination likely in late 1999 or early 2000 (for further details, see MX9100). Prior to this action, there was no duty or quota restricting access for U.S. beef to Mexico, and in 1998, U.S. beef shipments to Mexico reached a record \$351.8 million, not including \$85.6 million of live cattle (Source: U.S. Census)

Marketing

Although beef imports are expected to continue at high levels in 1999, they are expected to be less than the imports registered in 1998. Therefore, promotion programs for U.S. red meats should continue. Inadequate storage, handling and preparation of U.S. beef and products are not an issue. Target groups for promotions should primarily include retail and food service sectors. Emphasis should continue to be placed on the higher quality and consistency of U.S. beef. The Mexican beef industry recently produced, apparently with SAGAR, a promotional campaign touting the freshness of domestic beef over frozen imported beef

SWINE AND PORK MEAT

Production

Pork production in 2000 is forecast to slightly increase from the previous year's estimate, reflecting the expected improvement in consumer demand due to population growth and increased purchasing power. Most producers report that net returns have been negative in 1999 as higher hog prices have not offset increased feed costs. The inventory estimate is revised upward for 1999 due to the presence of large integrated firms which have survived past economic downturns and market crises and have actually grown stronger. However, for 2000 a decrease in ending inventories is expected due to increased in consumption. Ending inventories for 1998 are revised

upward to reflect official data.

Small-sized inefficient hog producers continue to reduce their operations further or are leaving the industry altogether due to large imports, higher feeding costs, and restricted exports due to animal health constraints. Furthermore, the large vertically integrated operations are showing moderate growth at the expense of the small producer. Mexican pork producers claim that for the past few years they have had to pay higher feedstuff prices for both imported and domestic soymeal, sorghum and corn. These conditions are affecting production costs which cannot now compete with imports of hogs and pork from the United States.

Consumption

Estimated pork consumption is revised upward for 1999 because of higher slaughter rates reflecting the closure of many small farms. For 2000, a slight increase of 1 percent is expected relative to the previous year's revised figure due to the expected improvement in consumer purchasing power. For 1998, the pork consumption estimate is revised upward to reflect official government data.

Promotional campaigns are limited due largely to the lack of economic resources from the Government and producer associations. Furthermore, the characteristics and attributes of domestically produced pork are far from being uniform across the industry. Only a few large producers dominate the market with high quality products processed in TIF establishments. Per capita pork consumption in Mexico continues to be relatively low reflecting consumers' perception that pork represents a human health risk.

At present, live hogs are priced at 10.04 pesos per kilogram (U.S. \$1.06/kg) while imported swine (antidumping duty inclusive) are priced at 14.04 pesos per kilogram (U.S. \$1.48/kg) at slaughter facilities in the metropolitan Mexico City area.

Trade

Hog imports for 2000 are forecast to decrease from our revised import figure for 1999 as a result of the application of the antidumping duty which will increase prices. The import estimate for live hogs in 1999 is revised upward due to rising prices for domestic hogs. Also, the largest volume of hog imports in 1999 came into the country before the antidumping duty was applied. The import estimate for 1998 is revised upward to reflect official government figures and the threat of the looming antidumping claim at that time. To date, only hog imports are permitted when animals are slaughtered at TIF plants due to the porcine respiratory and reproductive syndrome (PRRS).

Pork imports for 2000 are forecast to remain unchanged from our estimate for 1999 as domestic production will still be insufficient to meet demand. Pork import levels are expected to increase in 1999 as domestic production is unlikely to meet quality and food safety standards required by leading sausage and cold meat processors. Pork imports by these firms accounts for over 80 percent of total imports from the United States. The remaining 20 percent is imported by/for supermarket chain stores.

Hog slaughter rates for 1999 and 2000 are expected to increase due to the expected increase in consumption for the same periods.

Policy

SECOFI published the initial antidumping decision against U.S. live hogs on February 1, 1999, (see MX9019) followed by the first modification on June 16, 1999 (see MX9078 and MX9077). Under the initial announcement, SECOFI initially found under-pricing by US\$0.351 per kilogram, equivalent to approximately 48.13 percent, for live hogs from certain U.S. suppliers, as well as the threat of injury to the Mexican swine industry. The investigation continues, but since February 1, imports from the U.S. have been subject to an antidumping duty equal to the difference between the export price and the SECOFI reference price of US\$1.08 per kilogram, plus the current (in-quota) import tariff of 8 percent applied to live hog imports from NAFTA countries. Then on June 23, SECOFI published a second change to the preliminary dumping decision against U.S. slaughter hogs. The new June 23rd announcement states that, because Mexican customs authorities are unable to correctly determine ex-works value of live hogs-for-slaughter upon customs clearance in Mexico, and because invoices are presented by traders and/or brokers with FOB border prices, SECOFI will apply a compensatory duty on imports of live U.S. hogs for slaughter at the fixed rate of U.S.\$ 0.351 per kilogram, effective June 23, 1999. Again, this is in addition to the current (in-quota) import tariff of 8 percent applied to live hog imports from NAFTA countries. It also clarifies that this duty applies to all hogs imported from the United States, regardless of their country of origin. A final resolution is expected to be published by late 1999.

Further pressures from domestic swine producers to slow down pork imports and mechanically deboned poultry meat (MDM) and turkey parts are anticipated to continue in 2000. Swine producers claim that rising MDM and turkey parts imports displace utilization of domestic pork.

Marketing

There are good marketing opportunities for U.S. pork among large cold meat producers which have become stronger against medium and small sized companies. Educational seminars through supermarket chains are also useful to increase awareness of the advantages of the wide variety of U.S. pork cuts, since most consumers are still unfamiliar with U.S. pork. The Mexican pork industry recently produced, apparently with SAGAR, a promotional campaign touting the freshness of domestic pork over frozen imported pork.

SHEEP, GOATS AND LAMB, MUTTON AND GOAT MEAT

Production

Estimated lamb, mutton and goat meat production in 1999 is revised downward due to consumer preference for beef, chicken and pork which are attractively priced compared to sheep meat. For 2000, a slight improvement in production is expected as the result of more government assistance to smaller producers. The production estimate for 1998 is revised downward to reflect official government data. Increased producer returns have not been sufficient to expand flock numbers. Most sheep producers in Mexico are low-income with limited access to credit. Production of sheep under feedlot conditions continues to be insignificant. Goat producers are reportedly maintaining production levels despite access to export markets. Sheep and goat ending inventories are estimated at 6 and 7.4 million head, respectively in 1999.

The fastest growth area in sheep production is the hair breeds for meat. Dorpers, Black Belly and Pelibuey are

in strong demand. Trade sources indicate that some cattle ranches are converting to sheep production and incorporating hair breeds. Niche markets are also developing for milking sheep and goats. The sheep industry is profitable, prices are close to double the U.S., due to premiums for lamb and attractive prices for aged ewes.

Goat inventories are projected to remain stable for 1999. Production of goat milk remains limited due to the few number of processing plants and unattractive producer prices.

Consumption

Estimated mutton and goat meat consumption is revised downward for 1999 due to increased retail prices and consumer preference for beef, chicken and pork.. For 2000, a slight increase is forecast over the previous year's figure due to price increases in beef meat which are expected to entice consumers to return to sheep meat. For 1998, the consumption estimate is revised downward to reflect official government data and because of attractive beef prices in that period. Most sheep meat consumption continues to be in the form of "French barbecue" eaten on the weekend at country stands. Since mid-1994, SAGAR has attempted to restrict imports of slaughter sheep to TIF plants alleging animal health concerns. However, this initiative has failed because there are no specialized TIF plants for slaughter sheep in Mexico. Most of the sheep slaughtered in Mexico are in non-TIF establishments and backyard operations.

Trade

Estimated imports of slaughter sheep and goats for 1998 are revised upward due to improved demand and to reflect official government figures. With improved domestic prices, imports should continue at their current steady level in 1999 and 2000.

Export demand for baby lambs, wool and goat products, particularly in the U.S. market, may be increasingly a factor in encouraging producers to expand flock numbers in the medium term. To date, export sales have remained low but steady. Net returns are still insufficient to boost increases in sheep and goat numbers.

Ending goat and sheep inventories should increase slightly in 2000 because the government is expected to improve assistance programs to producers on small and fragmented land holdings.

Policy

The GOM continues to provide support to small-sized producers in the purchase of breeding stock at subsidized prices. In addition, domestic producer associations hope that the government will approve additional funds to support the implementation of better flock management practices. Most sheep and goat producers are in the low income group of domestic livestock producers and can not find alternative jobs or afford other livestock operations. A major goal of this program will be keeping small producers on the land.

The government has not changed import tariffs for these animals and products since our previous report. With the sharp decline in imports of U.S. slaughter sheep and goats, producer associations have reduced pressures on the government to impose stricter animal health regulations on imported animals.

Marketing

U.S. breeding stock producers should strengthen long term relationships and contacts with Mexican counterparts to promote utilization of U.S. genetics. Trade sources indicate that the U.S. industry has taken the Mexican market for granted and has not provided ample resources for customer education, training, and market service. It is imperative that the U.S. sheep industry maintain a market presence and consider a customer education emphasis until more flocks can be certified in the National Scrapie Certification Program. Stiffer competition from Australia and New Zealand (sheep and goats) and France (goats) genetics is anticipated in the near future.

BOVINE HIDES AND SKINS

Production

Domestic bovine hide production for 2000 is forecast slightly upward due to higher animal slaughter rates caused by the recent drought in northern Mexico. Hides and skins are viewed as by-products in Mexico and care is not taken in their production.

Due to government implementation of new ecological regulations which require installation of adequate water and waste disposal facilities many Mexican tanneries have left the industry. Therefore, Mexico has increased imports of wet blue hides and skins which require less processing.

Consumption

A slight increase is expected for hides and skins consumption in 2000 because of attractive prices. Although domestic supplies are expected to remain unchanged from our previous 1999 estimate, quality continues to be a major problem. Most tanneries report depressed leather sales due largely to further declines in demand by the domestic footwear industry. Tannery associations report that members who are doing better are those supplying leather to the few domestic footwear companies able to access export markets. Consumption for 1999 is anticipated to remain stable, with current levels of imports offsetting the stagnant domestic production.

Trade

Total whole bovine hide and skin imports remain unchanged from our previous estimate in 1999 due to limited growth of the domestic footwear industry. Import demand for 2000 is also forecast to remain unchanged from the previous year's estimate due to a slight increase in domestic production and the limited growth of the footwear industry. The U.S. should remain the main supplier of raw bovine hides and skins.

Marketing

U.S. hide and skin exporters should focus promotional activities on tanneries supplying leather goods to domestic exporting companies.

BY-PRODUCTS, TALLOW AND GREASE

Production

Tallow production in 2000 is forecast slightly upward due to expected increase in domestic beef output. Nevertheless, higher production is unable to meet current demand from animal feed companies. Livestock producers and feed companies have increased utilization of tallow in their feed formulations because of attractive prices for domestic and imported tallow. As a result, traders report a strong competition among feed users to purchase domestic tallow, which has resulted in reduced supplies to traditional users such as soap producers. Even with higher domestic tallow prices, investments to increase rendering facilities remain scant.

Consumption

Tallow consumption is forecast slightly upward in 2000 due mainly to expected increased demand by animal feed companies and vertically integrated swine and poultry operations. Traders report that tallow imports will likely remain strong despite the increased slaughter rate in Mexico.

Trade

The tallow import estimate for 1999 remains unchanged due to steady utilization by soap manufacturers, bakery and animal feed industries. Imports are also projected to remain unchanged for 2000 much for the same reason and due to domestic tallow production being unable to meet current demand. Imported tallow prices are currently cheaper than palm oil, its main substitute. The U.S. should continue to be the sole supplier of rendered products to Mexico.

Policy

On July 21, Mexico published a new proposed regulation PROY-NOM-060-ZOO-1999 which establishes specifications to regulate the rendering and use of animal by-products, and the commercialization thereof for use in animal feed, in order to avoid the risk of transmissible spongiform encephalitis (BSE and scrapie). It applies to both domestic Mexican and imported product, and claims to be partially in accordance with Chapter 3.2.18 of the rules of the OIE regarding BSE. The final rule (when published) becomes effective 60 calendar days from the date of publication, however, high-temperature plants will be given two (2) years to comply. These plants must present to SAGAR within 6 months definite plans to make the modifications required to comply with this rule.

In particular, the proposed rule states that imports are prohibited of tissue, offals, and meal:

- a) of bovine origin destined for animal feed when the country of origin and/or shipping country is affected or has commercial or zoosanitary practices which exposes them to BSE;
- b) of ovine origin when the country of origin and/or shipping country is affected or has commercial or zoosanitary practices which exposes them to scrapie (prurigo lumbar).

Other key points to be considered are that: It is prohibited to feed non-processed (raw) animal tissues to ruminants, equines, swine, and poultry. No ruminant meal or mix can be fed to ruminants, with the exception of tissues of low-risk.. The use of meals from non-ruminant species in feeding ruminants is allowed if the meal is processed in a rendering plant according to the requirements set forth in this proposed regulation, as long as the plant is approved by and registered with SAGAR. Animal fats, processed tallow and blood are not affected by this rule.

Under NAFTA, tallow and grease imports from the U.S. are subject to import tariffs of 8 and 16 percent respectively in 1999. These tariffs will be phased out over 9 years.

Marketing

Educational seminars are needed to facilitate access to imported tallow by medium and small sized feed companies, as well as livestock producer organizations. Many of these firms are still unable to access imports. Promotional campaigns to diversify tallow users should continue to expand sales of U.S. rendered products.