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Mexico

Dairy and Products Annual

Mexico's Processing Sector Fuels Demand for Dairy Inputs

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Report Highlights:
Mexico continues to support expansion of the dairy sector through government programs, private sector commitments, improved genetics, and technology. Lack of a cold chain constrains growth in various subsectors. The processing sector fuels demand for fluid milk and dairy products, such as powdered milk, with the gap between production and demand filled by imports. The modernization of both the North American Free Trade Agreement and the European Union-Mexico FTA are being watched closely by industry.

Commodities:

Dairy, Milk, Fluid
Dairy, Cheese
Dairy, Butter
Dairy, Milk, Nonfat Dry
Dairy, Dry Whole Milk Powder

Dairy, Milk, Fluid

Production:

For the purposes of this report, fluid milk comprises milk produced by primarily cows and goats.

Improved genetics and technology support expansion

The 2018 forecast for total commercial production is 12.4 million metric tons (MMT), continuing the pattern of steady growth supported by genetic improvements through imported dairy breeding cows and genetic material for artificial insemination, as well as improved on-farm management including strict sanitary programs, refrigeration, and cutting-edge technology (principally at the bigger commercial producers). As a result, production overall and milk per cow is expected to grow over time. Production for 2017 was adjusted, but still is expected to show year-on-year growth. (The 2016 figure for Other Milk, including goat's milk, was adjusted slightly up to reflect official data.)

As previously reported, a key factor in improving fluid milk production is improved genetics. Producers are looking to leverage improved genetics into an improved feed to milk conversion ratio, among other benefits. Dairy cows imported for breeding come overwhelmingly from the United States, followed at a distance by Canada. According to the Instituto Nacional de Estadística y Geografía (INEGI), as of July 2017, Mexico has imported 8,957 dairy cows from the United States out of a total 9,236 head (HS 01022901). Ciudad Juarez, Nuevo Laredo, Nogales, and Ojinaga, are the main ports of entry for dairy cattle from the United States and Canada. However, in 2016, all imported dairy cows were imported through Nuevo Laredo and Ciudad Juarez.

The deficit of high quality milk continues

Domestic production does not currently meet demand by the processing sector for high quality milk.[1] Often, the missing piece is a sufficient cold chain for transport to market after processing, or lack of infrastructure to cool milk, and maintaining a lower temperature in the post-milking phase.

Cooperatives support production

One of the goals of the Government of Mexico and domestic industry is to integrate small and medium milk producers into the supply chain. According to various sources, more than 75 percent of dairy farms have less than 30 head of cows. Cooperatives have become common among smaller producers, to pool their production, and often send through a middle-man to a processing plant. On the other end of the spectrum, it is estimated that less than one percent of dairy farms have more than 300 head of dairy cows, but that group produces around 30 percent of domestic production.

On-farm production and consumption

[1] As previously reported, high quality milk is collected with good milking practices from clean cows, and is free of bacteria and contamination from other drugs. Other things considered when determining if milk is high quality are the somatic cell count, acidification, the fat-protein ratio, and the content of water. Post-milking handling is key in producing high quality milk.

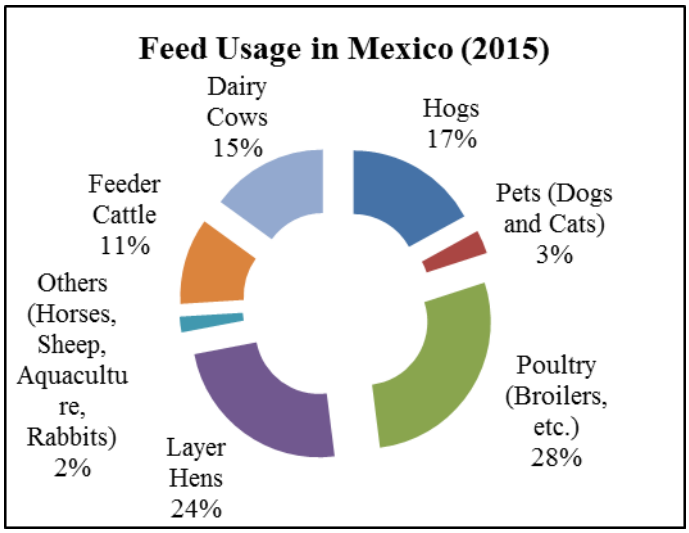
It is important to note that a significant quantity of fluid milk is produced in Mexico for either on-farm consumption or at the local level. This production is difficult to quantify and may involve a single cow owned by a family, particularly common in southern Mexico, and uses low levels of technology for production.

LICONSA[2] and other programs incentivize production

LICONSA continues to purchase milk from domestic producers, and the public-private partnership (established in the spring of 2017) LICONSA has with FEMELECHE[3] further encourages production. Results will most likely be seen in the medium to long term. Although funding is constricted for the remainder of 2017 and a shortened budget is expected in 2018, Mexico's government livestock strengthening program (PROGAN) also continues to support producers (See Policy section below).

Feed prices support production

Stable and low grain prices are supporting current production. While the poultry sector dominates feed usage, dairy cows use more than 15 percent of feed produced in Mexico according to the *Asociación Mexicana de Productores de Alimentos*. Further, much of this feed production depends on imports of grains and distiller's dried grains with solubles (DDGs) from the United States.



Source: Asociación Mexicana de Productores de Alimentos, A. C. (AMEPA), 2015

Seasonal production

Production of fluid milk follows the seasons, with production peaking in the rainy season (summer to early fall) each year. Jalisco is the largest producing state in Mexico, followed by Coahuila, Durango, and Chihuahua.

[2] Leche Industrializada Conasupo S. A. de C.V. (LICONSA) is a state-owned enterprise, whose goal is to distribute high-quality milk at a subsidized price to disadvantaged families.
[3] Also known as the Mexican Dairy Federation, FEMELECHE is a private sector organization of dairy producers and processors in Mexico.

Consumption:

Fluid use for domestic consumption flat

For 2018, fluid use for domestic consumption is forecast flat at 4.2 million MT. Demand currently remains stable, while demand for other specialized dairy products has increased. Industry believes that this consumption level could be greatly expanded. Currently milk processors and dairy farmers advertise their products independently, apart from an industry wide promotion to encourage general consumption (such as efforts by the National Chamber of the Dairy Industry, or CANILEC) on World Milk Day. Lack of refrigeration, particularly at the household level, is a constraint on the direct consumption of fluid milk, as well as competition with lower prices beverages such as soda.

Processors are the primary consumers of fluid milk

Factory usage is forecast for 2018 at 8.3 million MT, or almost double fluid use for domestic consumption. Consumers are demanding more and more specialty-processed milk products, and processors are responding. This includes conversion into powdered milk, use in products such as UHT milk (ultra-high pasteurization for shelf stable milk), and cheese. Milk is also used in the production of yogurt, cream, butter, and anhydrous milk fat production. Many of these processed products do not require refrigeration and therefore are popular among both retailers and consumers. Several sources report that industrial production of dairy value-added products is growing at a significantly faster rate than production of fluid milk.

Got Milk or an Alternative?

Among the middle and upper income population, alternatives to milk continue to grow in popularity. For example, soy-based beverages, as well as almond, rice, and coconut beverages continue to expand their market. Similar to shelf-stable processed milk, consumers are choosing them based on preferences for plant-based products, lactose intolerance, and the perceived health benefits.

Trade:

Imports down and flat

The import forecast for 2018 is flat at 45,000 MT for milk and cream as demand remains for principally consumption for further processing, but is being partially met by an increase in domestic production. Imports are minimal in comparison with production. The 2017 number has been revised down reflecting a 13 percent decrease in imports during the January to July period when compared with the same period of 2016.

Will Mexico Remain a Virtual Single-Source Importer?

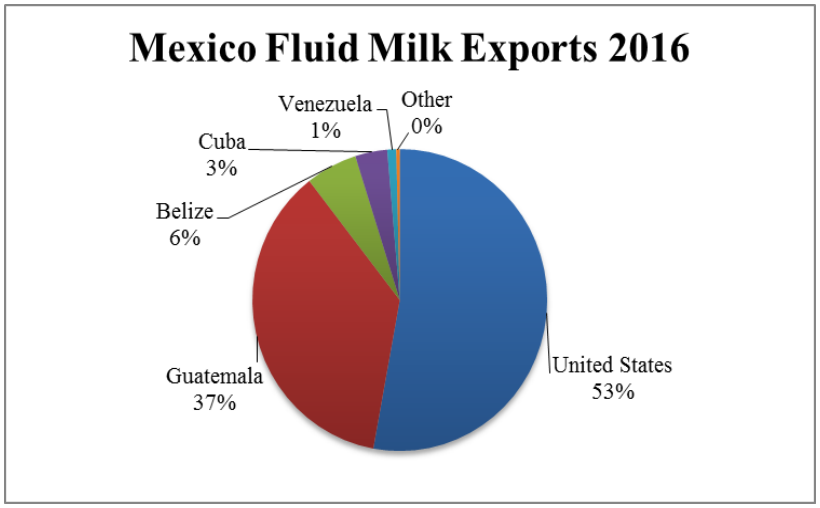
Mexico is the number one export destination for U.S. dairy products with a value of $1.2 billion in 2016. For fluid milk, the United States has recently grown to provide around 99 percent of imports, and imports from Uruguay have dropped off.

U.S. market share during the January to July period of 2017 has remained stable with a slight increase to 99.7 percent. In 2017 imports from other countries have been negligible, but include France, Italy, and Chile.

However, uncertainty over the future of NAFTA negotiations has caused concern among the dairy industry in both Mexico and the United States. The industries have worked together to express these concerns to the NAFTA negotiators. For example, in a joint letter[4] in August 2017 the industries highlighted the benefits generated from NAFTA, their concerns regarding "common" food names (geographical indicators) in negotiations with the European Union, and to express solidarity against Canada's new dairy trade provisions.

Mexico's exports of fluid milk are more diverse than its imports.

Exports of fluid milk for 2018 are forecast at 10,000 MT, following what is expected to be a slowdown in exports in 2017, which have been revised down to 8,000 MT. In the first seven months of 2017, exports are down by almost half, principally to Guatemala (down by 78 percent), and Belize (down by 83 percent).



Source: INEGI (through Global Trade Atlas)

Mexico continues to look to expand current markets while developing new ones. In terms of NAFTA, Mexico has expressed interest in access to the Canadian market, and interest in shipping Grade A milk to the United States.

[4] http://www.usdec.org/newsroom/news-releases/news-releases/news-release-08/28/2017

Policy:

LICONSA continues to be a big player in the dairy sector

LICONSA continues to seek to increase purchases from domestic producers. Updated reports show that, LICONSA is expected to purchase 600 million liters (618,000 MT) from domestic producers in 2017. Also, to benefit farmers and consumers, LICONSA seeks to enlarge its current portfolio of products, and plans to sell powdered milk, UHT milk, and pasteurized milk. As previously reported (see MX7020), around half of consumers of the subsidized milk program are children covered by "*desayunos escolares*," which is a subsidized school breakfast program.

The current nationwide price of milk distributed by LICONSA is MX $5.50 per liter (or a little more than 25 cents in USD). However, price of milk distributed by LICONSA in 151 selected low income municipalities at the States of Chiapas, Chihuahua, Durango, Guerrero, Hidalgo, Nayarit, Oaxaca, Puebla, San Luis Potosi, Veracruz, and Yucatan is MX $1.00 per liter.

Concerns that a budget shortfall will limit PROGAN in 2018

Although a budget shortfall is expected in the 2018 budget, PROGAN will continue supporting producers. As previously reported (see MX7020), PROGAN provides monetary support for small and medium dairy farmers.[5] There are various components of the program under which a dairy farmer might obtain support. For example, under the "Productivity" component of PROGAN, small dairy farmers with up to 35 head are eligible to receive MX$300 per head (or a little more than USD $15), with a maximum of MX$10,500 overall (or around USD $500 - $600) . Alternatively, under the "Supply Chain" component of PROGAN, dairy farmers can receive incentives to support raising, breeding and genetic material, handling, and feeding of MX$1,200 per head (Or around USD$65) with a maximum of 60 heads.

Geographical indicators a serious concern for the sector

Geographical indicators (GIs) are becoming a serious concern for the dairy industry as Mexico modernizes its FTA with the European Union. Within the agreement, the European Union has requested direct recognition of a list of GI terms such as Asiago, Feta, Gorgonzola, *Mozzarella* di Bufala Campana, and others. See GAIN MX7032 for a full list. As a part of this process, Mexico held an opposition process for geographical indications that could be included in the agreement, which has since closed. This is a concern for the Mexican industry, as well as the U.S. dairy industry, as it could impact sales and trade.

In April 2017, a bill was introduced into the Mexican Senate as an amendment to Mexico's intellectual property law. This amendment would address overseas products with protected denominations of origin and corresponding geographical indicators.[6]

[5] Specific details of the PROGAN program can be found here: https://www.gob.mx/sagarpa/acciones-y-programas/programa-de-fomento-ganadero-2017

[6] The text of the bill can be found here: http://www.senado.gob.mx/index.php?ver=sp&mn=2&sm=2&id=70608.

Official Norms were expected in 2017 but have not come to fruition

As previously reported (see MX7020), regulatory norms (known as NOMs[7] in Mexico) are under development for yogurt, powdered milk, and cheese, among others. Although expected to be published for comment this year, it appears unlikely that they will come to fruition before the end of the year.

Dairy, Milk, Fluid	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	6450	6450	6500	6500	0	6550
Cows Milk Production	11956	11956	12200	12100	0	12230
Other Milk Production	165	166	177	170	0	172
Total Production	12121	12122	12377	12270	0	12402
Other Imports	48	48	50	45	0	45
Total Imports	48	48	50	45	0	45
Total Supply	12169	12170	12427	12315	0	12447
Other Exports	12	12	14	8	0	10
Total Exports	12	12	14	8	0	10
Fluid Use Dom. Consum.	4183	4183	4186	4183	0	4185
Factory Use Consum.	7974	7975	8227	8124	0	8252
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	12157	12158	12413	12307	0	12437
Total Distribution	12169	12170	12427	12315	0	12447
(1000 HEAD) ,(1000 MT)						

Note: A conversion rate of 1.03 kg was used to convert production and trade from liters into MT. Trade is defined at HS 0401.

[7] Normas Oficiales Mexicanas

Dairy, Cheese

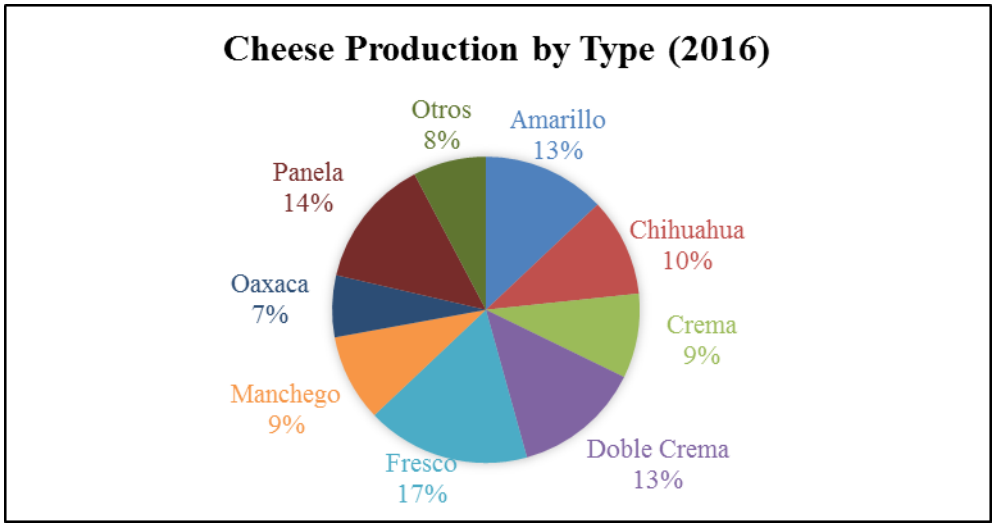
Production:

Production of cheese is on the upswing

For 2018 production forecast is 390,000 MT as the demand from all income-level sectors of the population is spurring production. This increase follows the trend over recent years, with the 2017 estimate revised upwards to 380,000 MT, and 2016 revised upwards to 375,181 MT based on official data from the Servicio de Información Agroalimentaria y Pesquera (SIAP).[8] While production is increasing, this growth faces a constraint in the availability of domestic high quality fluid milk as an input. Cheese is a staple food for all income levels of Mexican households, providing fat and protein in quesadillas, toppings on tacos, and sandwiches. As previously reported, Mexico produces one of the widest varieties of cheeses in Latin America with around 60 varieties.

Four cheeses account for more than half of production

Production is focused on Fresco, Panela, Doble Crema, and Amarillo, while other common cheeses such as Chihuahua, Crema, Manchego, and Oaxaca account for the rest. Companies devoted to supplying the domestic market have enlarged their coverage of production by including regional cheeses such as Ocosingo, Requeson, Canasto, or Jocoque, while also producing more international cheeses such as Cottage Cheese, Port Salut, Boursin, Mozzarella, Gouda, Danbo, and Edam.



Source: SIAP (Boletín de Leche: Abril – Junio de 2017)

Consumption:

[8] A revision was done to the Post PSD numbers for 2007-2017 based on official data from SIAP through the "Boletín de Leche."

There is room for Mexicans to consume more cheese

The forecast for 2018 consumption of cheese in Mexico is 510,000 MT. The consumption pattern for 2018 is not expected to change dramatically, and as such will see a small increase. Production of cheese in Mexico is almost exclusively for domestic consumption, and supplemented by imports to meet demand. Industry believes that this consumption level could be increased from its current per capita level, and that there is room to grow the market for both domestic producers, but also importers. The 2017 estimate was adjusted to account for increasing production.

Moving along the "tasting wheel"

Consumption of both fresh and hard or aged cheese will continue to be defined by income and inflation, with fresh cheeses consumed by all income levels, but aged cheese principally consumed by the middle and upper income population. While the low-income consumer purchases fresh cheese varieties in traditional wet markets, a small but growing segment of the population with higher incomes are purchasing fine (aged), and often, imported cheeses, at supermarkets, price clubs (Sam's Club and Costco), and specialized stores.

This is because middle and high income consumers are able to refine their consumption patterns through their purchasing power, moving through the "tasting wheel" from soft white cheeses to harder whites and yellows, eventually developing a taste for hard or mature cheeses (blue cheese, gorgonzola). High-end restaurants and resorts also cater to this growing demand. Lower income groups can play an important role in developing this market as well through purchases of less expensive cheeses in similar styles.

Millennials are setting the trend… #quesofresco #quesogouda

As a general trend, millennials are entering the work force with higher educational levels than the previous generation, with greater purchasing power, including young women who are moving away from traditional roles. These types of consumers are customary clients of new restaurant franchises where various dishes are served with a variety of cheeses. For example, many sushi restaurants in middle and high income areas use "queso Philadelphia," or rather, cream cheese, in many sushi rolls.

The potential remains

Although there is growth in the market among middle and higher income groups, it is important to remember that in Mexico, according to the World Bank, more than 40 percent of the population lives in poverty.[9] Although economic mobility is low, as this group transitions into middle income status, there will be a wealth of opportunity for the cheese market to grow.

Trade:

The Demand for Imports Sustained

[9] The World Bank in 2016 measured the poverty rate at s 43.6 percent. This official poverty rate combines monetary and non-monetary poverty (defined as those with income below the wellbeing line and with at least one social deprivation). Source: *Country Poverty Brief: Latin America & The Caribbean: Mexico,* World Bank, October 2017.

The imports of cheese for 2018 are forecast at 125,000 MT, continuing year on year growth. The estimate for 2017 was revised down to 120,000 MT, as imports are growing at a slower pace than expected. The figure for 2016 was revised down based on official data. Mexico imports cheese to bridge the gap between production and demand (around a quarter to a fifth of cheese consumed). Further, the kind of cheese imported versus produced domestically is markedly different.

A dip in U.S. supplies

As in the past, the United States is the dominant supplier of cheese and raw materials for cheese to Mexico. However, the market share of U.S. cheese dropped to 68 percent in 2016 (from 73 percent in 2015), principally due to growing imports from the European Union (in 2016, imports from the Netherlands made up 10 percent of the market, imports from Germany 2 percent, and Denmark 2 percent). New Zealand has also expanded their market share in recent years (5 percent in 2016). Additionally, Uruguay maintains 7-8 percent of the market share. The United States exports more than 25 varieties of cheese to Mexico, with close to 40 percent of that as Mozzarella. Other popular cheeses from the United States include Gouda, Cheddar, and Monterey Jack.

Throughout the dairy industry in both Mexico and the United States, producers and trade associations are closely watching the NAFTA renegotiations – in particular, importers are looking to diversify supplies but are expected to make decisions based on cost and ease of transport.

Similarly, the renegotiation of the EU-Mexico Free Trade Agreement may allow the EU's market share in cheese to grow in the future. As noted in previous reports, under the WTO, the EU can use a tariff-rate quota (TRQ) for powdered milk, along with duty free access for butyric fat.[10] However, Mexico currently applies an *ad valorem* duty to cheese from third countries of 25-45 percent.[11]

Exports low and flat

Exports are expected to continue low and flat from 2017 at 5,000 MT in 2018, as they are hampered by domestic demand, and international competition. Although exports were higher in the initial months of 2017, they leveled off to similar figures as 2016. This may be attributed to an attractive exchange rate for exports to the United States, the principal recipient of Mexican cheese exports, which have since returned to more normal rates. As previously reported Mexican cheese exports have found a niche market in both the United States and Central America which demand similar soft white cheeses (ex: Oaxaca style cheese). The figure for 2016 was revised based on official data.

Dairy, Cheese	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	285	375	300	380	0	390
Other Imports	123	126	130	120	0	125
Total Imports	123	126	130	120	0	125
Total Supply	408	501	430	500	0	515
Other Exports	5	5	5	5	0	5

[10] This is assumed to be androgynous milk fat (AMF).
[11] A few varieties at 125 percent. The most recent rates can be found here: http://www.siicex.gob.mx/portalSiicex/SICETECA/Decretos/Arancel/Tigie/tigiex.htm

Total Exports	5	5	5	5	0	5
Human Dom. Consumption	403	496	425	495	0	510
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	403	496	425	495	0	510
Total Use	408	501	430	500	0	515
Ending Stocks	0	0	0	0	0	0
Total Distribution	408	501	430	500	0	515
(1000 MT)						

Dairy, Butter

Production:

Buttery competition for inputs continues

As in recent years, butter processors continue to compete for inputs (fluid milk) with other dairy processors. Given the sustained demand from the bakery and confectionary sectors, the production forecast for 2018 is 220,000 MT in butter and butterfat, showing continued growth. The 2017 estimate was adjusted up to maintain a trend of small growth at 218,000 MT.[12]

Consumption:

Buttery bread and baked goods

Consumption of butter in Mexico is forecast for 2018 at 277,000 MT. The hotel, restaurant, and institutional (HRI) sector continues to demand high volumes for baking and direct consumption at restaurants and resorts. Smaller demand comes directly from consumers who purchase butter at grocery stores and retail chains. Consumption is increasing overall, particularly in the HRI processing sector (processed foods, baked goods, etc.), and in Mexico's largest cities (Mexico City, Guadalajara, and Monterrey).

As previously reported, Mexicans are switching from margarine to butter consumption due to both prices and positive perceptions of butter in relation to health (particularly among medium to high-income consumers). The 2017 consumption figure was revised up reflecting strong consumer demand. Although on a per-capita basis, Mexicans consume less butter than in the United States or Europe, Mexico is one of the most important butter/AMF importers globally.

Trade:

Imports slow in 2017, but strong demand maintained

Mexico imports nearly a quarter of total butter consumed in order to fill the gap between production and demand. In fact, in 2016, Mexico was the tenth largest importer of butter globally (fifth, if counting the European Union as a single block). This trend is not expected to change in 2018, and imports are forecast at 65,000 MT, showing an increase from the 2017 estimate. The estimate for 2017 is maintained at 62,000 MT reflecting a small decrease from 2016 during the January to July period.[13]

[12] A revision was done to the Post PSD numbers from 2007-2017 based on official data from SIAP through the "Boletín de Leche." The calculation to reach the butter production number includes SIAP data for "Mantequila" combined with "Crema o Grasa Butirica." or butter and butterfat. Butterfat in Mexico is considered to be the same as anhydrous milk fat (AMF) and butteroil in the United States. As such, for the purpose of this report, it is multiplied by 1.25 as an average conversion rate into butter.

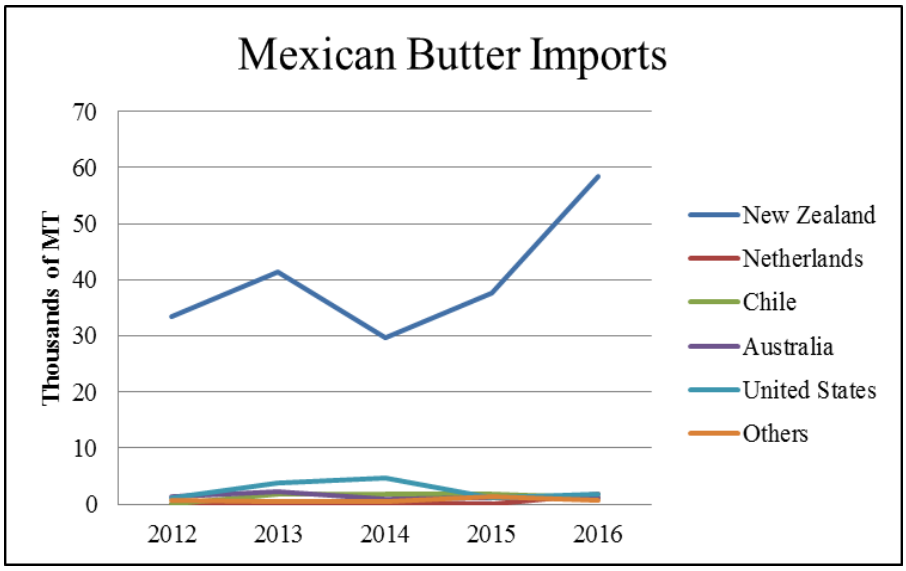
[13] Trade in butter includes HS 040510 (butter) and 040590 (AMF/butterfat). For the purposes of this report, AMF/butterfat is multiplied by 1.25 as an average conversion rate into butter.

New Zealand dominates butter sales in Mexico

New Zealand dominates the butter market, and continues to grow, holding 90 percent of the market in 2016. The United States holds around 3 percent of the import market, after peaking in 2013-2014.

The Netherlands, a newcomer

Imports of butter from the Netherlands are growing rapidly, with imports in the period January to July of 2017 having grown more than five times over 2016. Further, 2016 showed significant year-on-year growth from 2015, when imports were negligible. .



Source: INEGI (through Global Trade Atlas), using HS codes 040510 and 040590 with relevant conversions

Exports flat after falling in 2017

For 2018, exports are forecast flat at 8,000 MT after peaking in 2016. The primary destination for butter exports is the United States (96 percent of total exports in 2016). However, as of July 2017, official data showed that exports to the United States were 52 percent lower than the previous year (but still representing 95 percent of exports thus far). This reduction may have been caused by the increase in domestic consumption, among other processing factors.

Export figures for 2016 and 2017 were revised down to reflect official data and trends from INEGI (15,000 MT and 8,000 MT, respectively).

Dairy, Butter	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

Beginning Stocks	0	0	0	0	0	0
Production	205	217	210	218	0	220
Other Imports	65	65	62	62	0	65
Total Imports	65	65	62	62	0	65
Total Supply	270	282	272	280	0	285
Other Exports	15	15	10	8	0	8
Total Exports	15	15	10	8	0	8
Domestic Consumption	255	267	262	272	0	277
Total Use	270	282	272	280	0	285
Ending Stocks	0	0	0	0	0	0
Total Distribution	270	282	272	280	0	285
(1000 MT)						

Dairy, Skim Milk Powder (SMP)

Production:

SMP production keeps facing competition from other dairy processing sectors

The forecast for 2018 production of SMP is 50,000 MT. While this represents growth overall, growth is constrained by the competition for raw material (fluid milk) with other value-added products processors. The industry is seeking to expand production through two new drying facilities, which have been discussed in previous reports, but are not yet in operation (they are currently on hold for recognition as TIF facilities). Overall in Mexico there are only around 10 drying facilities, so the addition of two more will significantly increase capacity. These facilities will principally produce whole milk powder (WMP), but any surpluses of fluid milk will most likely go to SMP. These facilities will face challenges making their product competitive, as production costs in Mexico are higher than prices on the international market.

2016 and 2017 figures were revised down based on official data thus far.[14] Still, 2017 figures are expected to show year on year growth.[15]

Consumption:

Consumption is estimated at 348,000 MT in 2018, continuing to grow as dairy processors (the primary users of SMP) continue to demand inputs for their processed products or to be reconstituted into specialty milk. For example, SMP from the United States or Canada might be imported as an input for reconstituted UHT. Consumption by LICONSA of SMP is almost negligible.

Trade:

Mexico remains a net importer of SMP

[14] It is important to note that Mexican official statistics for production separate WMP, SMP, and "Para lactantes."
[15] A revision was done to the Post PSD numbers for 2007-2017 based on official data from SIAP through the "Boletín de Leche."

As above noted, the competition for availability of fluid milk has turned the SMP sector into a net importer. Imports of SMP are forecast for 2018 at 320,000 MT, showing continued growing demand by the processing sector, and an increase from the 2017 estimate which has been revised upwards to 310,000 MT based on the January to July import data. During the January to July period, imports grew overall by 24 percent compared with the same period in 2016. Imports from the United States grew by 16 percent, but notably, Spain and Canada's imports grew significantly during this time period when compared to 2016 (474 percent and 212 percent respectively). During this same period (January to July), the U.S. market share dropped to 85 percent (92 percent in 2016), and New Zealand dropped to less than half a percent, while Spain jumped to 9 percent, and Canada to 2 percent. These shifts have been due to attractive prices and exchange rates. In general, international prices for SMP are currently low. Other imported product comes from various EU countries.

Mexico's SMP Imports by Point of Entry and Exporting Country

Data Source: INEGI through Global Trade Atlas

Despite a public diplomatic and economic crisis, Venezuela demands SMP from Mexico

For 2018, the export forecast is raised to 22,000 MT, following rapid expansion in 2017. While exports have traditionally been negligible, in 2016 and 2017, Mexico saw rapid expansion, principally to Venezuela as a new trend, compared with small coverage in Central America. The 2017 figure has been revised up to 20,000 MT as through July exports had already hit 16,679 MT (up from 501 MT the previous year during the same period). So far in 2017, Venezuela has received 99 percent of SMP exports from Mexico.

Policy:

As established in the *Diario Oficial* (Federal Register) publication of December 19, 2012, Mexico maintains a tarif-rate quota (TRQ) for imported powder milk under HTS 0402.10.01 (SMP) and 0402.21.01 (WMP) from WTO countries of 80,000 MT. This updated previous TRQ allotments. Out of that amount, 40,000 tons can be allocated to LICONSA and the remaining amount can be allocated among the private sector. According to LICONSA, 24,000 MT of powdered milk were imported from all sources during 2016 under its purchasing program. EU member states that by their own right are WTO members may take advantage of this TRQ, along with other countries such as New Zealand. However, only a few EU countries have utilized this TRQ to date despite attractive dairy prices. Current imports from the U.S. are duty-free under NAFTA, and there is no TRQ for U.S. powdered milk. As of date, this policy maintains this status.

According to the 2017 Import and Export General Tax Tariff (TIGIE), effective on January 1st. 2017, the duty applied to imports from third countries for SMP under HTS 0402.10.01 with whom Mexico does not have a free trade agreement is 45 percent *ad valorem.*

Dairy, Milk, Skim Milk Powder	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	55	42	55	45	0	50
Other Imports	286	286	300	310	0	320
Total Imports	286	286	300	310	0	320
Total Supply	341	328	355	355	0	370
Other Exports	3	3	5	20	0	22
Total Exports	3	3	5	20	0	22
Human Dom. Consumption	338	325	350	335	0	348
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	338	325	350	335	0	348
Total Use	341	328	355	355	0	370
Ending Stocks	0	0	0	0	0	0
Total Distribution	341	328	355	355	0	370
(1000 MT)						

Dairy, Whole Milk Powder (WMP)

Production:

WMP dominates powdered milk production in Mexico

WMP production is forecasted at 155,000 MT in 2018, continuing growth from the revised 2017 figure. As noted above, the two new milk drying facilities are expected to increase production of WMP once they are operational. Historically, production of WMP has been significantly larger than SMP by far and this trend is not expected to change. As with all of the other processed dairy products, WMP competes for use of high quality fluid milk. Production figures for 2016 were revised down to reflect official data.[16]

Infant formula an important part of production

Apart from WMP and SMP, SIAP estimates that 73,623 MT of powdered milk for infant formula was produced ("leche en polvo para lactantes").

Consumption:

The 2018 forecast for WMP is 114,000 MT, as processors continue to demand WMP as an input, and smaller amounts are demanded by the retail market, but 2017 is expected to see a sharp drop due to unexpected exports to Venezuela (the new forecast for 2017 domestic consumption is set at 898,000 MT). Additionally, LICONSA utilizes large amounts of WMP both for distribution as a dry food, but also for reconstitution.

Trade:

Imports expected to be flat

The import estimate for 2018 is expected to be flat at 9,000 MT after an expected decrease in 2017 following a peak in 2016. Smaller quantities of WMP are imported than of SMP as the Mexican dairy industry prioritizes drying facilities to make WMP, creating a smaller gap between production and consumption. In 2017 imports are revised to 8,000 due to data through July, which show imports down 81 percent from the previous year. New Zealand is Mexico's main supplier, but saw an 84 percent decrease during the January to July period. Argentina, which was the second largest supplier in 2016, saw their market drop to zero during the January to July period of 2017 (similar to 2014 and previous years). The United States and Canada held 29 percent and 11 percent of the market share during the same period (January to July of 2017).

Imports would have been lowered further, but due to unexpected exports to Venezuela, the market may need to supplement domestic supplies.

[16] A revision was done to the Post PSD numbers for 2007-2017 based on official data from SIAP through the "Boletín de Leche."

Mexico's WMP Imports by Point of Entry and Exporting Country

Data Source: INEGI

Exports of WMP continue to expand and diversify

The forecast for exports of WMP are set at 50,000 MT following an unexpected peak in 2017. The primary destinations for Mexican exports of WMP have traditionally been markets such as Colombia, the United States and Cuba. Mexico has been seeking to expand coverage, including among Caribbean nations as well as South America.

Where is all the powdered milk going? Venezuela

As of July in 2017, Mexico had exported 51,680 MT to Venezuela (principally during May) compared with 0 during the same period in 2016. See the notes in the SMP section related to Venezuela. It is unclear if these shipments will be a one-off market expansion, or sustained in coming years.

Dairy, Dry Whole Milk Powder	2016		2017		2018	
Market Begin Year	Jan 2016		Jan 2017		Jan 2018	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	156	144	157	150	0	155
Other Imports	12	12	13	9	0	9
Total Imports	12	12	13	9	0	9
Total Supply	168	156	170	159	0	164
Other Exports	20	20	22	70	0	50
Total Exports	20	20	22	70	0	50
Human Dom. Consumption	148	136	148	89	0	114
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	148	136	148	89	0	114
Total Use	168	156	170	159	0	164
Ending Stocks	0	0	0	0	0	0
Total Distribution	168	156	170	159	0	164
(1000 MT)						

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Title
MX6037	Dairy Annual
MX7020	Dairy Semi Annual

FAS/Mexico Web site: *We are available at https://www.fas.usda.gov/regions/mexico or readers may visit the FAS headquarters' homepage at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.*

Useful Mexican Web Sites: *Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx, equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at www.salud.gob.mx. These websites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.*