

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Mexico**

### **Livestock and Products Semi-annual**

#### **Mexico's Livestock Sector Remains Healthy**

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**Report Highlights:**

The livestock and red meat industry in Mexico continues to grow. Cattle herd rebuilding is being slowly realized, while live cattle exports (primarily to the United States), have leveled off. Federally inspected facilities for red meat production are expanding, and Mexico has intensified a long-term trend to diversify both imports and exports of red meat. Meanwhile, the swine/pork sector is consolidating, and vertical integration is happening on commercial farms.

**Commodities:**

Animal Numbers, Cattle

**Production:****Herd rebuilding is being slowly realized.**

The forecast for Mexican cattle production in 2017 is raised to 7.3 million head reflecting continued rebuilding of the herd. The estimate for 2016 cattle production also is raised to 7.1 million head. Herd rebuilding is incentivized by government programs, and recent stable grain prices.

For the past several years the Program to Promote the Livestock Sector (“*Programa de Fomento Ganadero*”) as well as the Program for Genetic Improvement “*Programa de Mejoramiento Genético*” has played an important role in the cattle sector. These programs are expected to continue providing financial and technical support to cattlemen in 2017. For more information on these programs, see GAIN report [MX3077](#).

**Vertical integration is happening at a slower pace.**

Contrary to the poultry and swine/pork sector where vertical integration has seen a significant uptick in recent years, the cattle/beef sector is integrating at a slower pace. Only a few larger companies in northern Mexico have moved in this direction, while medium and small producers continue in their respective silos. Smaller ranchers struggle with the distance between feedlots and slaughter/processing facilities, which are generally not well integrated, and are owned by various actors.

**The North-South divide remains.**

Larger commercial production is located in northern Mexico, where confined and semi-confined *bos taurus* cattle are fed on grain and pasture, and are well positioned for the feeder cattle export market. In southern Mexico, production takes place under semi-confined conditions for primarily *bos indicus* cattle. These cattle are principally grass-fed, and intended for slaughter and the domestic market.

**Trade:****Imports are destined for genetic improvement.**

The forecast for imports of live cattle to Mexico is 33,000 head for 2017 representing a 10 percent increase from the Post 2016 estimate. The 2016 estimate is kept at 30,000 head due to updated official data. Overall, imports continue to grow, but are constrained by high prices for U.S. breeding cattle and a disadvantageous peso-dollar exchange rate.

The overwhelming majority of the live cattle imports are destined for herd improvement (breeding cattle and dairy cows). However, more and more, producers are retaining heifers and bulls for breeding.

**Mexico is diversifying live cattle imports for herd improvement.**

The United States is the principle supplier of live cattle to Mexico, and Canada has historically maintained market share. In 2015, a small number of breeding cattle primarily for the dairy sector were imported from New Zealand, but none in 2016. In May 2016, Australian purebred cattle arrived in Mexico for breeding purposes. Australian imports comprised a quarter of Mexico’s live cattle imports in 2016. New Zealand imports are similarly expected to increase in 2017. Constraints on imports from both of these countries include transportation time, a lack of infrastructure along Mexico’s western ports (i.e. Mazatlán), and capacity for inspection at the receiving ports.

As previously reported in 2016, Mexico established a mechanism, which would allow for a duty free import quota (TRQ) for countries currently without preferential market access (i.e. Pacific rim countries such as Australia and New Zealand). However, a quantity for the TRQ has not been established. (See the beef policy section.)

**The U.S. herd has recovered, dampening demand for exports.**

The forecast of Mexican live cattle exports in 2017 is 1 million head, flat from the revised 2016 figure based on updated official data. Generally, over 99 percent of live cattle exports are destined for the United States, in particular for backgrounding and feeding operations. This has been a traditional commercial practice between the United States and Mexico given the attractive benefits for Mexican cattlemen such as cattle prices and relatively easy transportation distances. However, exports have slowed as the United States realized herd recovery (i.e. a diminished demand for imported steers in the United States). On average Mexico exports a fifth to a sixth of the number of cattle destined for slaughter as it slaughters domestically.

**The cattle and beef industries of the United States and Mexico are extremely integrated.**

The cattle and beef sectors in the United States and Mexico have a long and symbiotic history. A cow (or parts of the cow) could cross the border up to four times.

As noted, many cows are imported from the United States for breeding purposes (as are bovine genetics such as semen and embryos). Offspring in Mexico, then, are raised until they reach an average of 180 kg. This weight is achieved with the specific goal of exporting to the United States, where the steer are finished to a desired weight and then slaughtered and processed to supply the U.S. market. However, some of the meat (mostly primal cuts), is demanded by high-income consumers and the HRI sector in Mexico. In addition, many of the hides return to Mexico for use in the leather industry, particularly for shoes and car seats (which may be re-exported to the United States through the automotive industry).

**Production, Supply and Demand Data Statistics:**

Animal Numbers, Cattle Market Begin Year	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
<b>Total Cattle Beg. Stks</b>	17120	17120	16615	16615	16500	16620
<b>Dairy Cows Beg. Stocks</b>	3250	3250	3275	3275	3275	3350
<b>Beef Cows Beg. Stocks</b>	6700	6700	6800	6800	6900	7000
<b>Production (Calf Crop)</b>	6850	6850	7000	7100	7100	7300
<b>Total Imports</b>	23	23	25	30	25	33
<b>Total Supply</b>	23993	23993	23640	23745	23625	23953

<b>Total Exports</b>	1213	1213	1050	1000	1000	1000
<b>Cow Slaughter</b>	1350	1350	1330	1300	1300	1300
<b>Calf Slaughter</b>	275	275	220	220	230	230
<b>Other Slaughter</b>	4350	4350	4375	4435	4380	4480
<b>Total Slaughter</b>	5975	5975	5925	5955	5910	6010
<b>Loss</b>	190	190	165	170	175	153
<b>Ending Inventories</b>	16615	16615	16500	16620	16540	16850
<b>Total Distribution</b>	23993	23993	23640	23745	23625	24013
(1000 HEAD)						

Not Official USDA Data

### **Commodities:**

Meat, Beef, and Veal

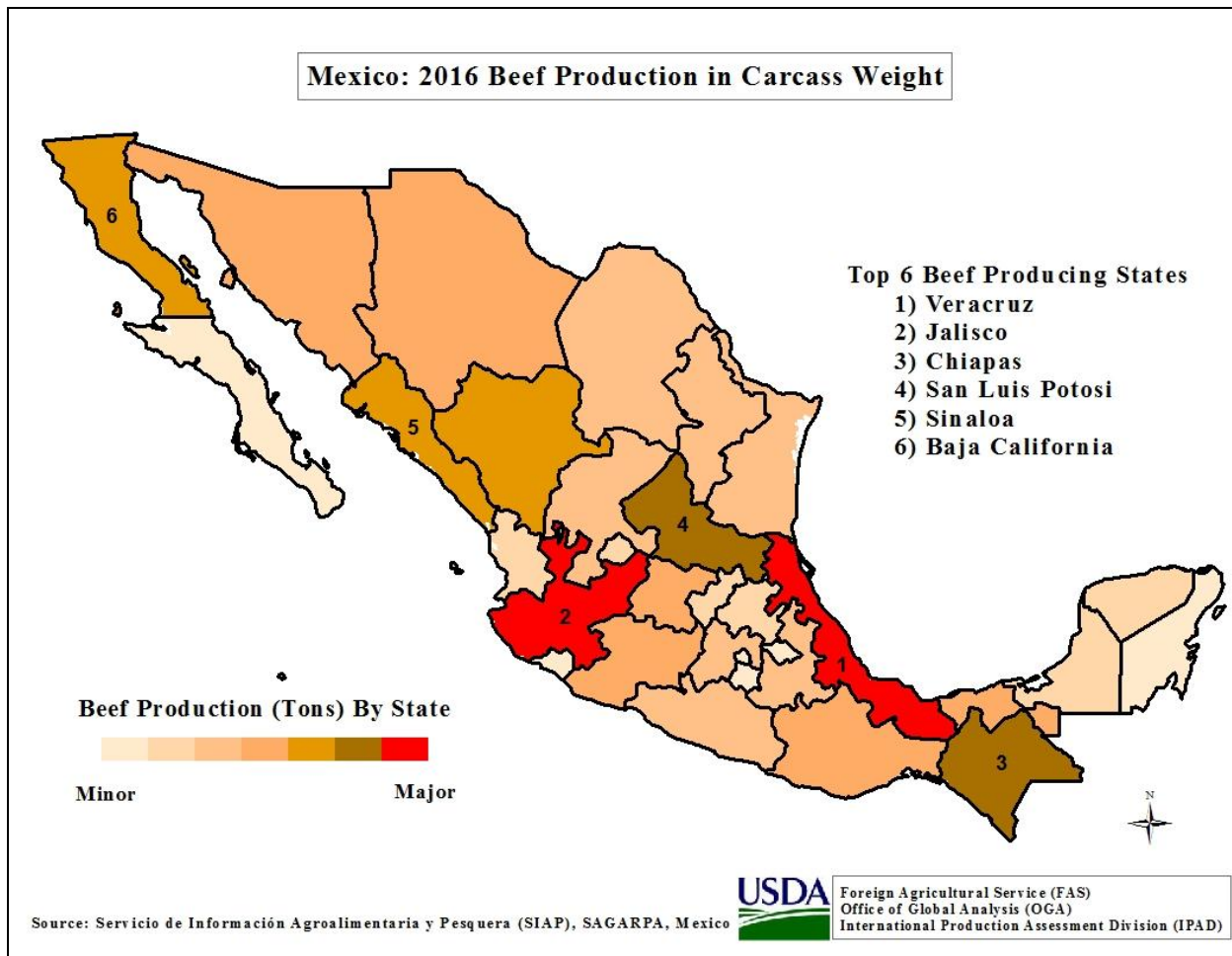
### **Production:**

The Post new production estimate is revised at 1.9 million tons of beef, 1.6 percent higher than the revised 2016 estimate based on updated official data. Increasing weights obtained by retaining cattle longer in feedlots, offsets slaughters numbers. Production for exports is encouraged by the strong dollar and a general desire to diversify export markets.

### **Federally inspected facilities continue to expand.**

In recent years, SENASICA's has targeted municipal slaughterhouses and other processing facilities for conversion and integration into federally inspected facilities (known as TIF or Federal Inspection Type), highlighting probable benefits with the eligibility to export their products. SENASICA has stated that the trend of expanding TIF-based production and shrinking municipal production will allow the sector to guarantee the production and processing of safe meat and poultry products for both the domestic and export markets.

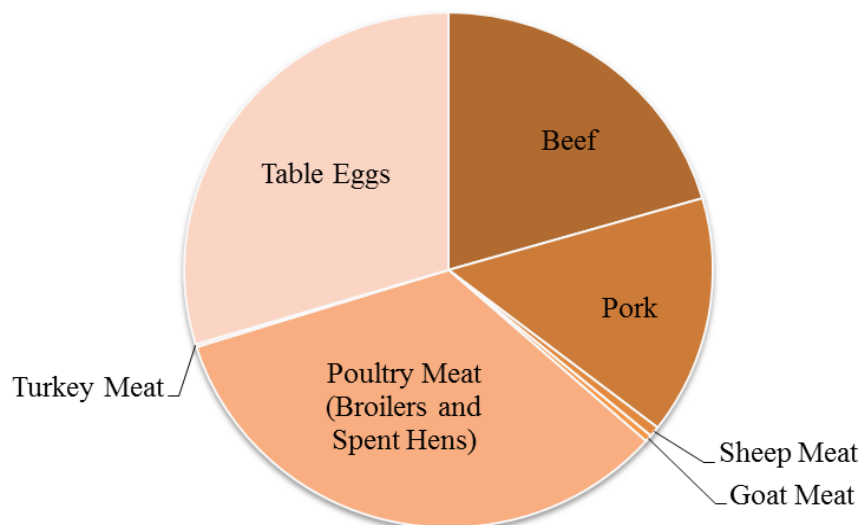
Data from the National Association of TIF Establishments (ANETIF) for 2015 shows that 41 percent of beef and 39 percent of pork consumed in Mexico was processed in a TIF establishment and distributed in chain stores or supermarkets rather than in more traditional butcher houses. In 2016, authorities from SENASICA stated that 57 percent of red meat and poultry meat produced in Mexico comes from a TIF establishment. Currently there are 435 TIF establishments. According to private sources, cattle intended for slaughter at TIF facilities, are expected to be finished around 520-550 kg live weight in 2017 (similar or slightly higher than 2016 and 2015, and increased from prior years).



**Beef and pork production account for around 35 percent of animal protein production.**

Based on updated data from the Servicio de Información Estadística Agrícola y Pecuaria (SIAP) of Mexico, in 2016, 20 percent of the domestic animal protein production is beef while 15 percent is pork.

## 2016 Animal Protein Production in Mexico



Data Source: SIAP, SAGARPA, Mexico (percentage of tons)

\*Does not include dairy or honey

### Consumption:

#### Price continues to be the main limit to increasing per capita consumption.

The estimated consumption of beef is raised, but only to marginally higher than the revised 2016 consumption estimate, as relatively high beef prices will keep consumption in check for at least the first half of 2017. As previously reported, the medium- and low-income population continues consuming beef in a thin-muscle beef cut known as “*bistec*”, which is significantly lower priced than fine cuts. High-income consumers will continue consuming high-valued beef cuts (for example, at Brazilian or Argentinian style steak houses), a practice that has remained stable for years. Consumption has remained relatively constant, as poultry remains the overall preferred animal protein, a preference based principally on price.

In 2016, the Animal Protein National Commission (CONAPA by its Spanish acronym) emerged as a joint venture of the livestock sector. Their mission is to promote the consumption of animal protein overall, regardless of the species of origin. Currently, the poultry sector has not confirmed their membership, but beef, pork, and dairy are making inroads with the younger population in regards to the health benefits of animal protein.

### Trade:

**Where else can Mexico get meat? Mexico seeks to diversify its imports.**

Imports are forecast at 190,000 tons in 2017, a 3 percent increase from revised 2016 estimates. The estimate for 2016 is revised up to 185,000 tons, based on a strong fourth quarter and updated official data.

The United States has historically held more than 80 percent of the market, followed at a distance by Canada. Beef imported from the United States is both directly consumed, and used by Mexican processors for specialty cuts (i.e. high-value cuts). In October of 2016, Mexico removed restrictions on Canadian beef imports due to Bovine Spongiform Encephalopathy (BSE).

In the past three years, Nicaragua has been gaining small amounts of market share (principally for fresh/chilled boneless beef), with even smaller amounts coming from Costa Rica, Australia, Uruguay, New Zealand, and Chile.

As previously reported, in 2016, the GOM signaled their intention to further open the Mexican market to beef imports under a new TRQ mechanism (discussed in the Policy section) for third countries without preferential trade agreements (i.e. Australia and New Zealand). The TRQ was enacted on March 1, 2017 for 200,000 tons of beef.

Also in 2017, the GOM has publically announced their plans to visit Brazil and Argentina, in part, to discuss access for red meat. These openings and discussions are intended to diversify suppliers, as well as offset the negative impact of higher cost of U.S. beef due to a disadvantageous peso-dollar exchange rate.

While Mexico allows the entry of whole carcasses and half carcasses, most imports are boxed, with a maximum of 15 kilograms (33 lbs). This method is preferred by exporters as inspection facilities often lack rails/hooks for hanging carcasses.

### **Mexico is similarly seeking to diversify exports.**

The 2017 forecast for beef exports is revised up to 285,000 tons as Mexico seeks to strengthen their presence in the international market. Although efforts to diversify both imports and exports are a long-term trend, they have intensified in early 2017. As a part of the GOM strategy to diversify international beef markets, Mexico is looking to increase exports to Japan, South Korea, and the Middle East, among others. They are similarly seeking to open other markets (such as Russia).

Meanwhile, Mexican beef continues to be principally exported to the United States. Smaller markets include Japan, Hong Kong, and Canada. The peso-dollar exchange rate is likely to in-part influence export decisions in 2017.

### **Doors open for Halal meat.**

In 2016, Mexico obtained third-party certification for Halal slaughter (beef and poultry), and currently around 10 TIF facilities are certified, with plans for 120 other facilities to be certified in 2017. SAGARPA estimates that the Halal market in the Arabian Peninsula could surpass \$100 million for Mexican beef exports.

## Policy:

### A TRQ mechanism is now in place for beef.

In June 2016, the Secretariat of Economy (SE) published in Mexico's Federal Register (Diario Oficial) the rules to establish a tariff-free quota (TRQ) for third-countries without free trade agreements with Mexico for live cattle, beef, and rice.

On March 1, 2017, SE enacted a TRQ under the mechanism mentioned above for 200,000 tons of beef and 150,000 tons of rice to enter Mexico duty free. The beef products included in this TRQ are HS codes 0201.10.01 (carcasses or half carcasses), 0201.20.99 (bone-in meat), 0201.30.01 (deboned meat), 0202.10.01 (carcasses or half carcasses), 0202.20.99 (bone-in meat), and 0202.30.01 (deboned meat).

There is a maximum quota allocation of 30,000 tons of beef per requestor. The purpose of the decree is to supplement domestic beef availability through imports. The current non-quota tariff rates are 20 percent for fresh or chilled beef, and 25 percent for frozen beef. For further details, see [MX6025](#) and [MX7005](#).

## Production, Supply and Demand Data Statistics:

Meat, Beef and Veal Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	5975	5975	5925	5955	5910	6010
Beginning Stocks	0	0	0	0	0	0
Production	1850	1850	1880	1879	1910	1910
Total Imports	175	175	180	185	190	190
Total Supply	2025	2025	2060	2064	2100	2100
Total Exports	228	228	255	255	275	290
Human Dom. Consumption	1792	1792	1800	1809	1825	1810
Other Use, Losses	5	5	5	0	0	0
Total Dom. Consumption	1797	1797	1805	1809	1825	1810
Ending Stocks	0	0	0	0	0	0
Total Distribution	2025	2025	2060	2064	2100	2100

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Not Official USDA Data

## Commodities:

Animal Numbers, Swine

## Production:

The pig crop continues growth, thanks to improved biosecurity and genetics.



The forecast for the 2017 pig crop is raised to 19.8 million head, an increase over the revised 2016 estimate of 19.2 million head, and reflecting continued growth in the sector. PED and PRRS persist as a challenge for swine health in Mexico, but timely efforts to control these diseases combined with genetic improvement continues to support an increase in the pig crop. The improved management of offspring is allowing an increased number weaning piglets, and higher inventories. As previously reported, the OIE granted Mexico recognition as free of Classical Swine Fever in 2015.

Larger commercial producers tend to have swine with higher weights, but weight can also depend on feed and requests for customers for specific characteristics. For example, producers may choose to feed with wheat or other grains rather than corn for characteristics such as coloring, taste, and marbling. In general, feed remains relatively inexpensive, supporting expansion in pork production.

### **The sector is consolidating, and vertical integration is happening on commercial farms.**

The pork sector has seen increased consolidation and vertical integration in recent years, and that trend continues. The larger producers are vertically integrated from artificial insemination, to feed processing plants, to slaughter facilities, and retail stores. Sustainability is a high priority for commercial producers, and many have built biodigestors (using the swine manure as an input) to produce electricity, which is either used at the production facility, or entered back into the electrical grid for a discount on electricity costs. Efforts towards sustainability have economic benefits (i.e. the reduced cost and increased reliability of electricity), as well as satisfying consumer purchasing trends of sustainably produced products.

### **Natural protection in the Yucatan bolsters production in the peninsula.**

The Yucatan is an important production area for both swine and pork in Mexico. Due to its natural biosecurity as a peninsula and strict biosecurity measures, the area has remained free of PED. As discussed in the pork section below, the Yucatan is the fourth largest pork producing state in Mexico. There has been rapid growth of the swine and pork industry in the Yucatan over the past five years, in part due to the natural biosecurity and efforts to vertically integrate, but is expected to slow over the next five years.

### **Trade:**

#### **Mexico continues to import live swine to improve genetics.**

The forecast for imports of live swine in 2017 is 25,000 head, up from 2016. The Program for Genetic Improvement continues to incentivize the imports of new breeding lines with a goal of increasing the number of weaning piglets per litter, and to increase the inventory overall. However, the peso-dollar exchange rate will play an important factor in decisions to import.

Following significant purchases of breeding swine in 2015, and in part due to a disadvantageous exchange rate, imports in 2016 show an expected drop, estimated at 20,000 head. The United States has historically been the principal supplier of live swine to Mexico. In 2015 and 2016, Mexico also

purchased a third of live swine imports from Canada. Imports from other suppliers are negligible. Mexico's exports are null.

**Production, Supply and Demand Data Statistics:**

Animal Numbers, Swine Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Total Beginning Stocks</b>	9700	9700	9917	9917	10702	10697
<b>Sow Beginning Stocks</b>	1150	1150	1180	1180	1210	1210
<b>Production (Pig Crop)</b>	18000	18000	19200	19200	19360	19800
<b>Total Imports</b>	42	42	20	20	25	25
<b>Total Supply</b>	27742	27742	29137	29137	30087	30522
<b>Total Exports</b>	0	0	0	0	0	0
<b>Sow Slaughter</b>	15	15	15	15	17	15
<b>Other Slaughter</b>	17100	17100	17685	17685	18500	18540
<b>Total Slaughter</b>	17115	17115	17700	17700	18517	18555
<b>Loss</b>	710	710	735	740	745	742
<b>Ending Inventories</b>	9917	9917	10702	10697	10825	11225
<b>Total Distribution</b>	27742	27742	29137	29137	30087	30522

(1000 HEAD)

Not Official USDA Data

**Commodities:**

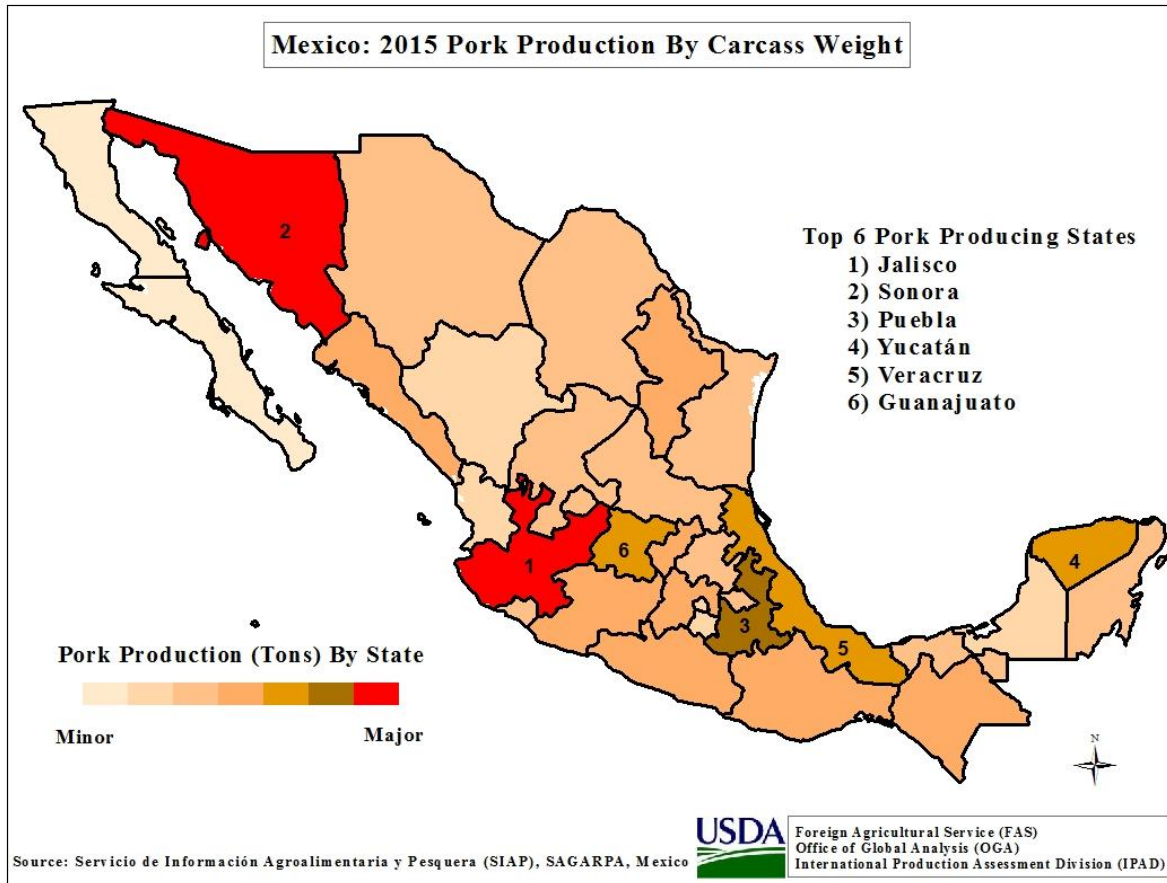
Meat, Swine

**Production:**

**Pork production continues to climb.**

The forecast for swine meat in 2017 is revised to 1.4 million tons. This is up from production in 2016, which has also been revised based on updated official data from SIAP. Both numbers represent growth year on year. This growth is supported by improved genetics leading to higher feed conversion, but is constrained by continued biosecurity concerns, as well as competition from imports. Slaughter is expected to continue to rise, particularly as Mexico seeks to both meet domestic demand, and export greater quantities of red meat.

The top pork producing states in Mexico by carcass weight are Jalisco, Sonora, Puebla, and Yucatan, accounting for more than half of production. As previously reported, every state in Mexico produces pork, albeit in small quantities. In certain states, pork production is primarily for household consumption, and not formalized in the commercial sector.



## Consumption:

### Pork is well-priced and popular!

Consumption is forecast at a record 2.36 million tons in 2017, principally due to anticipated low prices, particularly for imports from the United States. Per capita consumption is expected to increase, fueled by availability and affordable prices. Pork is consumed on a daily basis in a variety of dishes, including “tacos al pastor,” a traditional taco that includes pork and pineapple.

Currently, pork remains a lower cost alternative to beef but competes with poultry meat as an affordable source of animal protein both at the household and commercial level. In particular, meat processors often make production decisions based on the relative price ratio of pork and other meat for products such as sausage and ham. As reported in the recent Poultry and Products Semi-Annual, in Mexico there are four different types of “ham.” They are as follows: pork ham (pork only), turkey ham (prepared with turkey thighs), pork/turkey ham (55 percent is pork), and turkey/pork ham (55 percent is turkey).

## Trade:

Pork imports for 2017 are revised up to 1.1 million tons to reflect recent improved demand for pork. Imports for 2016 are revised based on updated data from INEGI. Despite increases in production, Mexico supplements domestic demand with imports. On average, between 40-50 percent of the pork consumed in Mexico is imported. Mexico principally imports pork from the United States, followed at a distance by Canada.

Higher production in the United States has resulted in supplies of relatively cheap pork, which is attractive to the Mexican market. As previously reported, mechanically-deboned meat (MDM), hams, and picnics, account for a large share of Mexico's pork imports from the United States. Pork exports to Mexico from the United States set a new volume record in 2016, following several consecutive record-breaking years.

### **Mexico is looking to diversify its imports.**

As discussed above, Mexico has shown interest in diversifying its imports of red meat, in particular, interest in opening the market to South American countries such as Brazil.

### **Mexico's pork product exports are tailor-made for the customers.**

Pork exports are forecast at 150,000 tons, up from the revised 2016 figure. Strict biosecurity measures and processing methods implemented at processing facilities, has allowed Mexican producers/exporters to increase exports of high quality pork products in recent years. Sophisticated and tailored made pork products (such as shish kabobs and precisely weighed patties) to cover the demand from East Asia, and particularly Japan, are currently prepared in various facilities. The estimate for 2016 was revised to 145,000 tons based on updated official data.

Japan is far and away the primary destination for Mexican pork product, constituting more than 80 percent of Mexico's pork exports. Relatively cheap manual labor gives Mexico an edge when producing for such niche markets. The United States and South Korea rotate between distant second and third destinations for exports. This trend is not expected to change in the short term.

### **Following the OIE ruling in 2015, Mexico has pursued market access based on CSF-free status.**

As reported, Japan granted Mexico recognition as CSF-free for all states in 2016. Canada followed suit by the end of 2016, and although export quantities to Canada are small, it signals the potential opening of other markets as well. A high priority for Mexico is to receive recognition from the United States and other markets as being CSF-Free in all states. Currently, the United States recognizes nine states in Mexico as CSF-free.

### **China is open for business.**

Following a series negotiations and audits, in 2016, Mexico received authorization to export pork products to China. Although this represents a new market niche with attractive potential to increase exports, as of November 2016, figures show a negligible amount exported.

## Production, Supply and Demand Data Statistics:

Meat, Swine Market Begin Year Mexico	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
<b>Slaughter (Reference)</b>	17115	17115	17700	17700	18517	18555
<b>Beginning Stocks</b>	0	0	0	0	0	0
<b>Production</b>	1323	1323	1385	1376	1448	1410
<b>Total Imports</b>	981	981	1025	990	1050	1100
<b>Total Supply</b>	2304	2304	2410	2366	2498	2510
<b>Total Exports</b>	128	128	140	145	150	150
<b>Human Dom. Consumption</b>	2176	2176	2270	2221	2348	2360
<b>Other Use, Losses</b>	0	0	0	0	0	0
<b>Total Dom. Consumption</b>	2176	2176	2270	2221	2348	2360
<b>Ending Stocks</b>	0	0	0	0	0	0
<b>Total Distribution</b>	2304	2304	2410	2366	2498	2510

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Not Official USDA Data

## Crosscutting Challenges in the Livestock and Meat Sector:

### Gas Prices and the Exchange Rate

Two crosscutting issues are of particular concern to the livestock and meat sector in 2017. The first is the “Gasolinazo,” or, gas price hikes, which began in the final months of 2016. Some industry representatives noted slowed transportation time for products, in part due to various blockades or protests at the beginning of the year. If gas prices do not remain stable or decrease, this could be a continuing concern.

The second crosscutting issue is the exchange rate. The devaluation of the peso against the dollar provides both incentives for export and disincentives for expensive imports. The majority of grains to process for animal feed is imported from the United States. Although there are low and stable feed prices globally, the turmoil in the peso-dollar exchange rate is being monitored by producers. Overall, the import trend of feed ingredients is not expected to change substantially, nor dramatically affect production prices in the short-to medium-term.

### Author Defined:

### FAS/Mexico Web Site:

We are available at [www.fas.usda.gov/regions/mexico](http://www.fas.usda.gov/regions/mexico) or visit the FAS headquarters' home page at [www.fas.usda.gov](http://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](http://www.sagarpa.gob.mx), equivalent to the U.S. Department of Commerce (SE) can be found at

[www.economia.gob.mx](http://www.economia.gob.mx) and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at [www.salud.gob.mx](http://www.salud.gob.mx). These web sites 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.

**Other Relevant Reports Submitted by FAS/Mexico:**

<b>Report Number</b>	<b>Subject</b>	<b>Date Submitted</b>
<a href="#">MX7005</a>	Mexico Opens Unilateral TRQs for Beef and Rice	3/3/17
<a href="#">MX6032</a>	Mexico's Livestock Annual	10/14/16
<a href="#">MX6025</a>	Mexico Establishes TRQs But No Need To Worry	6/9/16
<a href="#">MX6013</a>	Mexico's Livestock and Products Semi-annual	4/6/2016