

U.S. Dairy Products Selling Well in Mexico

By Salvador Trejo and Gabriel Hernandez

The signing of NAFTA (the North American Free Trade Agreement) has increased opportunities for U.S. dairy products in Mexico. With \$201.6 million worth of sales in 2002, Mexico is the largest (and

fastest growing) market for certain U.S. products: nonfat dry milk, fluid milk, cheese, yogurt and ice cream.

With the exception of powdered milk, all U.S. exports of dairy products to Mexico became duty-free as of Jan. 1, 2003. Powdered milk, however, is another matter. In 2003, it is subject to a zero duty import quota for the first 52,191 metric tons—but exports over this amount are subject to an import duty of 58.7 percent. Milk powder exports will have to wait until 2008 to enter duty-free.

Private importers still must obtain a share of an import quota for powdered milk through bidding in an auction organized by the Mexican government. Import certificates are then issued to specific companies or individuals according to their registered activity, be it distribution or processing. Imports by LICONSA (Mexico's social feeding program) are not subject to these license requirements. Since 1994, no import permits (certificates) have been required for other dairy products.



Quesolutions Pays Off

The USDEC (U.S. Dairy Export Council) represents U.S. dairy interests in Mexico. The council's staff in Mexico City provides information on all aspects of U.S. dairy product trading and use, including market intelligence on trade policy issues, organizing informational seminars for the Mexican trade and developing promotional and sales opportunities for U.S. dairy products in the Mexican market.

Its cheese promotion campaign has a readily recognized national slogan—*Quesolutions*—which is a play on the Spanish words for “what a solution” and “cheese solution.”

The association's promotions in retail stores have resulted in increased sales of U.S. dairy products averaging 25 percent. Promotions in the hotel, restaurant and insti-

tutional sector have been conducted through Italianni's restaurants, Costco and Domino's Pizza. A back-to-school promotional campaign for cheese was particularly popular with Mexican schoolchildren.

USDEC also organizes food service seminars in large tourist areas. The association brought Mexican buyers on a trade mission to the United States, where they visited dairy processing plants and suppliers and checked out the services and products offered.

These marketing efforts have had positive results for U.S. exporters. U.S. dairy exports to Mexico increased from 138,482 tons in 1996 to 201,839 tons in 2002. U.S. cheese imports surged a colossal 223 percent during the period, up to 21,101 tons in 2002.

Outlook Good for Powdered Products

Whole and nonfat dry milk powder. Powdered milk imports for 2002 reached 230,000 metric tons. LICONSA normally uses about 65 percent of these imported products. The local subsidized price for powdered milk is around \$2.92 per pound. U.S. exports topped 53,614 tons in 2002.

Fluid milk. Current average consumer prices in Mexico are 75 cents per liter for pasteurized milk and about 90 cents per liter for ultra heat-treated milk. The United States is the main supplier of fluid milk to Mexico, exporting 35.5 million liters there in 2002.

Cheese. Expected imports of 21,101 tons from the United States were up 2.2 percent in 2002 over 2001. Middle and upper income consumers are demanding more cheese and a greater variety. Local prices for fresh cheese average \$2.50 per pound.

Butter. Most imports of butter and

butterfat are used to reconstitute milk powder. Exports to Mexico for 2002 amounted to 423 tons; the local price is about \$2.20 per pound.

Distribution Mostly on Regional Level

U.S. exporters need to find local representation for their products. Few major national distributors have the capacity to handle dairy food products. To ensure the best distribution, U.S. exporters should complement their national distributors with regional ones.

Though larger retailers are looking to import directly, most of these stores do not yet have cold storage large enough to guarantee product quality on the shelf.

Many Mexican dairy manufacturers have established distribution systems to handle their own products. Some regional distributors also specialize in dairy products. Some foreign suppliers have set up alliances with domestic manufacturers to distribute their products. ■

It's in the Genes

Mexico's dairy industry is currently unable to supply all the country's needs. Poor sanitation and genetics, inefficient cold storage and refrigeration, and outdated transportation and marketing facilities hamper expansion.

Confined production systems in northern Mexico are similar to those in the United States. However, they average only 75 percent of the output of U.S. dairies. Some large dairies continue to focus on increasing productivity through the use of improved genetics, feed formulas and seasonal comfort systems, such as water mist sprayers during summer months.

Semi-confined systems in central Mexico and dual-purpose cattle operations, mostly in southern Mexico, have lowered productivity.

Higher prices for domestic raw milk are encouraging small and medium-sized dairy farms in central Mexico to expand milk production by improving their stock.

According to Government of Mexico statistics, almost 4,000 head of dairy cattle were imported from the United States and Canada during 2002.

Increased use of semen to improve dairy genetics is expected in the future. Heightened competition from new-to-market suppliers such as New Zealand, Australia and the European Union is also expected.

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