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Bustling Comarca Lagunera: Well-serviced Market with Ample Niche Opportunities

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Report Highlights:

On February 12-15, ATO/Monterrey visited Torreon, Coahuila, an area better known as la Comarca Lagunera, meeting with key dairy, feed, logistics and food processing companies.

General Information:

Overview of la Comarca Lagunera

La Comarca Lagunera (Laguna) is an area located in the middle of Northern Mexico. It is composed of 16 municipalities of the states of Coahuila and Durango with the key cities of Torreon and Matamoros in Coahuila and Gomez Palacio and Lerdo in Durango. The Laguna was an area of shallow lagoons formed by two rivers, Nazas and Aguanaval, these were dammed leading to the establishment of a booming center of commercial agriculture and industry, becoming the most important cotton region in Mexico. As the cotton industry declined due to multiple factors, the dairy industry became the driving engine of the humming agricultural activity in the area.

Figure 1: Map of La Comarca Lagunera



With a population of 1.5 million, of which a third are economically active, and with one of the highest per capita incomes in the country, it has a solid consumer base with the purchasing power to hurl a growing demand of specialized goods and services. This is highlighted by a robust transport infrastructure servicing the region that includes an international airport, state-of-the-art highways systems, and railroad services that make it one of the key crossroads in Mexico.

Dairy Industry

The Comarca Lagunera is the heart of Mexico's dairy sector. Due to its specialized production practices it produces close to 20 percent of the country's milk production in an approximate area of 55 KM². It's not unusual to find operations averaging 35-40 liters/cow/day.

The largest player in the region is [Lala](#), founded in 1949 by a group of dairy farmers. Currently, these

farmers operate 150 dairy parlors, producing 6,200 MT daily, or close to 68 percent of the Laguna's milk production. These parlors range from 500 to 15,000 head of cattle.

According to industry sources, in the last five years growth in the sector has averaged a paltry 1 percent. The reasons are pretty forthright; decreasing per capita consumption, low milk prices, and imports of skim powdered-milk that is being reconstituted. The growth has come through productivity increases, as no significant herd expansion has taken place, remaining close to a herd population of 500,000 head. The heydays were the nineties, when the industry was averaging growth rates of five percent per year. Unambiguously, U.S. genetics are widely used as 95 percent of the cattle are of U.S. origin and second to none.

Of the operations visited, only one company stated that they have expansion plans. They intend to buy 5,000 U.S. heifers in November of 2018. Nonetheless, they have concerns of the widespread use of genomics, fearing that they might end-up buying heifers that fall at the near-end of the bell curve. ATO/Monterrey touched base with U.S. livestock exporters to address this issue and assuage the company's concern.

Independent dairy producers shared concerns that the industry is being challenged by quotas imposed by milk processors during the peak producing season, imports of powdered milk, and market-distorting policies from developed countries. Many have diversified their operations, being feeder cattle one of the more alluring opportunities.

Cattle Feeding Industry

The Comarca's burgeoning cattle feeding industry is a new phenomenon. Although the region has always produced feeder cattle focusing mostly on the regional markets, the dynamic changed in 2012 when SuKarne opened a feedlot and slaughterhouse. According to an [ERS report](#), the cattle feeder population in 2011 was close to 70,000 head, by 2017 it is estimated that it had increased to 500,000 on par with the dairy industry's cattle population. Two key players account for the bulk of the region's herd, Rancho Lucero and SuKarne with close to 80 percent.

Many of the ranchers have capitalized on the use of dairy bull calves, which in the past were not highly valued; therefore it is very common to see feedlots ripe with Holstein bulls. Nonetheless, the ranchers use a variety of cattle in their operations from pure Cebu and European breeds, but more predominantly crossbreeds between these two. Ample opportunities for U.S. genetics and consulting services abound for U.S. companies.

Additionally, due to the region's water shortage fodder is a thriving business. Much of the fodder is provided by neighboring Chihuahua and some trickles down from the US. This surge in cattle feeding has positioned Coahuila as the fourth largest exporter of live cattle to the US with over 60,000 head exported in 2017, behind Chihuahua, Sonora and Tamaulipas.

Poultry Industry

Poultry production in the Laguna region dates back to the 1950's when the first egg production farm was established. The region reached a peak in the 1970's when it was considered the largest poultry processing complex of all Latin America, establishing a producer-processor cooperative business

concept similar to that of Lala in the dairy sector. This industry integration translated into a significant expansion of the poultry industry in this region.

Although numbers vary due to the fact that available statistics for the region have to be extrapolated from available data of the Laguna's *municipios* (equivalent to counties) from two separate states, Coahuila and Durango. According to the Agricultural Infographics from 2015 prepared by SAGARPA, the region's production that year was around 380,000 MT of broiler meat, worth about \$626 million; meanwhile, egg production was over 120,000 MT, worth almost \$120 million. Industry sources put the Laguna in fourth place for broiler production and fifth place in egg production nationwide.

Pork Industry

There is not much pork production in the Laguna region. According to the regional SAGARPA office, there are approximately 70,000 hogs in the region, of which around 10 percent are backyard operations. The other 90 percent is owned by [Grupo MUMA](#), a highly-technified pork production, processing and distribution company operating since the 1980's and accounting for all of the Laguna's commercial pork operations. Not only they distribute their products (about 20,000 MT per year) through traditional retail channels throughout the country, but they also use their 10 specialized "pork-only" meat stores, complemented by an aggressive direct and social-media marketing strategy.

In Muma stores consumers can find the traditional pork cuts and also, a wide array of value-added processed products: chicharron, pork jerky, trompo/pastor meat (Mexico's version of doner kebab/gyro/shawarma), pork patties, menudo, and other traditional dishes that are either fresh processed meat products or ready to eat. Many of these products are also available in other parts of Mexico via their retail sales to another Laguna-born company: Soriana. With their marketing strategy they envision significant short term growth, thus creating an opportunity for imported inputs and selected added-value products for their business. It is to note that close to 70-80 percent of their pork is of U.S. origin, the rest is raised on their state-of-the-art farms.

Feed Industry

With such a heavily populated livestock area, it is no surprise that there is a dynamic feed industry in place, which is well serviced and highly competitive. The bulk of feed ingredients are of U.S. origin of which corn is king. ATO/Monterrey estimates that about 2.5 MMT tons of corn are consumed in the Comarca Lagunera, followed by soybean meal with close to 500,000 MT of soybean meal, and DDGS with 400,000 MT.

The leading feed mill is Nuplen, a Lala subsidiary, which produces close to 130,000 MT tons of feed monthly. It is followed by medium sized companies that produce feed for their own operations producing between 20,000 to 30,000 MT of feed monthly and outsource to third parties. SuKarne, Mexico's leading meat processor inaugurated a massive cattle feeding complex in 2016; the complex includes a feed processing plant with a capacity of 32,000 MT of feed monthly, and a slaughterhouse with an annual capacity of processing 800,000 head of cattle. The facilities also include plant for protein derived products (tallow and meal).

There is a general sentiment among the feed millers is the quality of U.S. corn has deteriorated in the past three years, pushing the lower quality boundaries of US corn #2. One miller just received a shipment of US #2 that did not meet the standard. He did concede that the supplier acknowledged the

quality, providing a discount on the shipment. Another miller stated that he received a shipment with unusual amount of foreign material- much of it rocks-damaging his rollers. ATO/Monterrey has engaged US Grains Council, seeking a favorable response address La Laguna's feed industry.

The logistics are pretty impressive. Ferromex provides direct train service to some of the mills bringing weekly corn shipments directly to their mills and a service provider. It's a continuous process; nonetheless they would like to see more competition in rail service.

Opportunities abound in this market. They are continuously searching for new feed additives and ingredients. Some of the ingredients that they would like to see supplies of are pelletized almond hulls, pelletized citrus pulp, beet pulp, and cottonseed. ATO/Monterrey has reached out to the different cooperators inquiring of possible suppliers and trade leads.

Apple Market

The Laguna is a decent market for apples. Most of the apples are sourced from neighboring Chihuahua, but about a third of the apples come from Washington State. Red Delicious commands close to 80 percent of imports, followed by Golden Delicious with 15 percent of imports.

It is interesting to note that Gala and other varieties have not made much headway into the Laguna's market. According to importers, color remains the key selling point, and if the apples don't have a bright red color consumers are not persuaded. On the other hand, consumers shy away from Golden Delicious when these are bright yellow.

ATO/Monterrey discussed these issues with Washington Apple Commission. The short term plans are to conduct market development activities, trying to promote Gala and other varieties that will soon be the bulk of the supply offered by U.S apple producers.