

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 2/15/2019

GAIN Report Number: MX9003

Mexico

Livestock and Products Semi-annual

Mexican Livestock Sector Continues Expansion of Production and Exports

Approved By:

Melinda Sallyards

Prepared By:

Karisha Kuypers and Gustavo Lara

Report Highlights:

Mexico's livestock industry is set to continue its growth in 2019 with increasing production and efforts to seek out new export markets. Rising consumption of pork is driving expansion of Mexico's pork sector, with the domestic industry investing in expansion and vertical integration efforts to meet rising demand. While higher levels of imports help fill the gap between production and demand, Mexico is increasing its pork exports by seeking out new international markets. However, the elimination of government support programs under the new Mexican Presidential Administration has created uncertainty in the industry. Mexican livestock producers are concerned that the lack of government support could undo recent gains in the sector.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

Animal Numbers, Swine

Meat, Swine

Animal Numbers, Cattle**Production**

The forecast for calf crop production for 2019 remains unchanged at 7.9 million head, as stable feed prices enable production to expand at a moderate but steady rate. Production for 2018 also stays the same at 7.7 million head.

Cattle in Mexico, particularly in the northern states of Mexico, are finished in feedlots on grain. The time cattle remains in the feedlot varies from 120 to 200 days depending on the quality of the desired finished product. Mexican industry estimates that it takes about 750 kg of grain on average to grow an animal of 550 kg for slaughter. This number may vary up to 1000 kg if producers want increased marbling of the carcass.

The National Association of Producers of Food for Animal Consumption (Asociación Nacional de Fabricantes de Alimentos para Consumo Animal, or ANFACA) reports that the beef cattle sector used 11 percent of Mexican feed production in 2017.¹ The majority of feed production in Mexico goes to the poultry sector, which consumes 52 percent of available feed.

Types of cattle production systems and breeds used vary greatly across Mexico and are determined largely by geography and economic differences between the three main regions of Mexico (North, South and Center/Bajío). Large cattle operations are typically located in the northern Mexico states versus small-scale, backyard farmers in the southeastern states. In 2018, the biggest beef-producing States in Mexico were Veracruz, Jalisco, San Luis Potosi, Sinaloa, and Chiapas.

Government Cattle Support Programs Eliminated

The Administration of Mexico's new President Andrés Manuel López Obrador, inaugurated on December 1, 2018, came into power on promises to cut the national budget, eliminate corruption, and alleviate poverty. Many of the previous government's agricultural support programs, particularly those that benefit larger producers in the North, have already been eliminated in an effort to divert funding to President Lopez Obrador's poverty alleviation programs (described in the Policy section below). Previous cattle improvement programs, such as the Programa de Fomento Ganadero (Livestock Promotion Program, known as PROGAN) and the Programa de Mejoramiento Genético (Genetic Improvement Program) are not included in the new Mexican national budget. The Mexican industry believes the elimination of these programs will not have an impact on production in the immediate future although it remains to be seen if the sector will experience long-term repercussions from their removal.

¹ <http://anfaca.org.mx/>

Trade

The forecast for live cattle imports in 2019 is decreased to 27,000 head. Cattle imports in 2018 are revised down to 25,000 based on official trade data. Imports of live cattle were 29 percent lower in 2018 than during the previous year. In 2018, Mexico imported cattle from the United States (97 percent of total live cattle imports) and Canada (3 percent).

Although 2017 saw a peak in live cattle imports for slaughter, fewer cattle were imported in 2018 because it was less appealing for Mexican livestock producers to import U.S. cattle. Mexican slaughterhouses experienced difficulties with handling heavier and larger U.S. beef carcasses in their facilities, creating operational and food safety issues.

Exports of cattle in 2019 are estimated at 1.35 million head, reflecting a continued growth trend. Cattle exports in 2018 were eight percent higher than the previous year and are revised to 1.3 million head to reflect official data through November 2018. As in previous years, almost all exports (99.99 percent) of live Mexican cattle are destined for the United States. Small numbers of cattle continue to be exported to Mexico's southern neighbors, such as Belize, El Salvador, and Costa Rica.

Policy

Traceability Efforts Will Retain Government Support

Although the government-supported programs will not continue, Mexico's cattle traceability program, the National Animal Identification System (SINIDA), is one of the only cattle programs that still have funding and support under the new Presidential Administration. However, even though the program has legislation in place, implementation and enforcement will remain an issue. The program is supported by Mexico's National Confederation of Cattle Organizations (CNOG), which is supporting the "National Agreement for Animal Traceability 2018-2024" efforts to develop a strong structure to enforce the Mexican traceability system in full.²

Mexico Announces Cattle Credit Program to Support Smallholder Producers

Mexico's new Government under President Lopez Obrador has declared that it will create a number of programs to reduce poverty and raise the incomes of smallholder farmers in Mexico, particularly those in the southern Mexican states. In January 2019, the Mexican Food Security Agency (Segalmex) was created to administer the new poverty alleviation and income support programs. These include price guarantee programs for basic commodities (corn, bread wheat, beans, rice, and fluid milk), fertilizer support programs, and fruit tree planting.

A Livestock Credit Program (Crédito Ganadero a la Palabra) will also be created to support small livestock producers. The program's objective will be to increase the productivity of small livestock producers through public investments in order to grow the number of cattle, sheep, goat, and beehives owned by small producers. The beneficiaries will be producers with a herd of one to 35 Animal Units (AU, in which 1AU = 450 kg). During 2019, this effort will be focused on the States of Campeche,

² <https://www.gob.mx/sader/prensa/fortalecera-sader-el-sistema-nacional-de-trazabilidad-animal-188574?idiom=es>

Chiapas, Oaxaca, Quintana Roo, Tabasco, Veracruz, Yucatan, Guerrero, Michoacan, Zacatecas, Tamaulipas, and Nayarit.

Animal Numbers, Cattle	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	16490	16490	16584	16584	16815	16699
Dairy Cows Beg. Stocks	3350	3350	3400	3400	3450	3450
Beef Cows Beg. Stocks	7300	7300	7500	7500	7700	7700
Production (Calf Crop)	7485	7485	7700	7700	7900	7900
Total Imports	32	32	30	25	30	27
Total Supply	24007	24007	24314	24309	24745	24626
Total Exports	1203	1203	1200	1300	1200	1350
Cow Slaughter	1320	1320	1350	1350	1370	1370
Calf Slaughter	230	230	240	240	250	250
Other Slaughter	4520	4520	4570	4570	4620	4620
Total Slaughter	6070	6070	6160	6160	6240	6240
Loss	150	150	139	150	145	150
Ending Inventories	16584	16584	16815	16699	17160	16886
Total Distribution	24007	24007	24314	24309	24745	24626

(1000 HEAD)

Meat, Beef and Veal

Production

Beef production in 2019 is forecast at 2 million metric tons as a result of moderate growth in the sector and increased export opportunities. The production of beef in 2018 is increased to 1.98 million MT based on government production estimates.

While the Mexican beef industry expects domestic beef production to increase by 2-3 percent in 2019, high levels of production in the United States, combined with relatively high domestic beef prices will likely keep beef production relatively flat. Some industry sources believe that Mexican production should remain stable in order to avoid an oversupply of beef and lowered prices in the face of increasing beef imports.

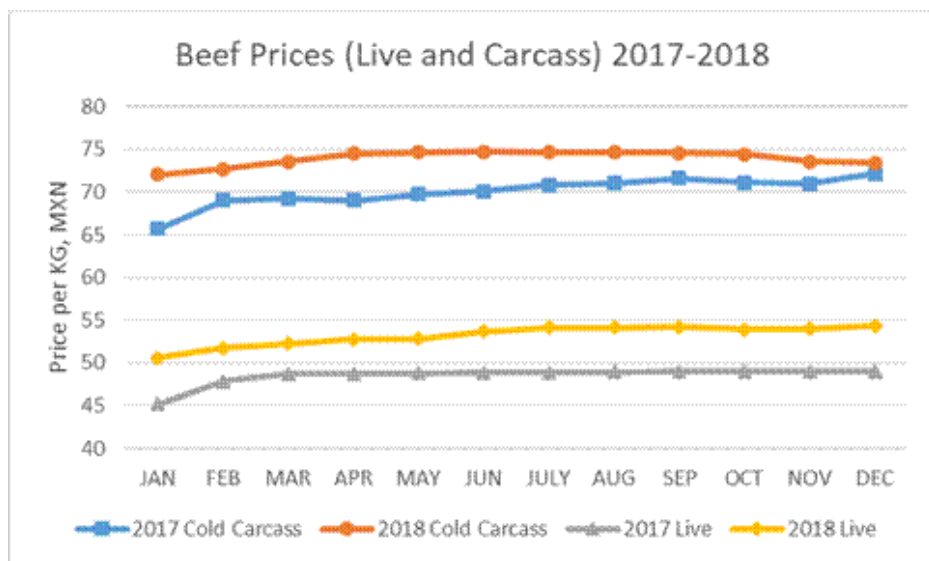
TIF Incentives Eliminated in New Government Budget

As mentioned in previous reports, SENASICA has worked to expand the TIF slaughter facility system by offering different types of incentives for producers to use TIF facilities. Since 2003, SENASICA incentivized producers to use these facilities by offering small support payments for every cow or hog slaughtered at a TIF facility. These small subsidies were helpful in promoting the use of TIF facilities instead of municipal slaughterhouses. According to the National Association of TIF Establishments (ANETIF), 68 percent of cattle and 64 percent of swine in Mexico were slaughtered at a TIF facility in 2016. However, the new Mexican Presidential Administration eliminated the TIF subsidy program in the 2019 Mexican National Budget as a cost-savings measure. Some of the Mexican industry is concerned that producers may revert back to municipal slaughter facilities without the subsidy although others hope that the incentive payments may be reinstated in the coming years.

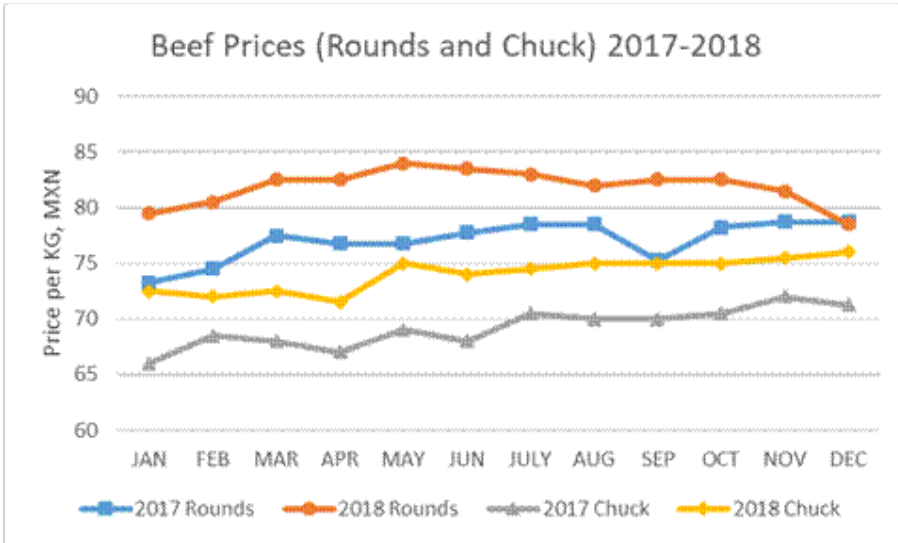
Consumption

The forecast for beef consumption in 2019 increased slightly to 1.89 million MT. While consumption of beef continues to increase, high prices constrain domestic beef consumption for many segments of the population. Domestic consumption of beef has not grown at the same pace along with increasing production, mainly because of the elevated prices, which continues to push consumer preference towards pork or poultry. While there a strong market remains for quality beef, it represents a smaller sector of the population. Some industry sources believe that the beef market may need to reinvent itself in the next few years to prevent further decreases in consumption levels.

Domestic beef prices were higher in 2018 than in 2017 for both carcasses and cuts. However, in general, prices were stable throughout the year, with a slight increase towards the end of the year due to higher demand in the holiday season.



Data Source: USMEF/SIAP



Data Source: USMEF/SIAP

Trade

The forecast for imports of beef in 2019 remains unchanged at 220,000 MT. Imports in 2018 are lowered slightly to 205,000 MT based on official trade data. Imports of fresh and chilled beef increased by 5.8 percent from January to October 2018 over the previous year, while frozen beef imports saw an 18 percent decrease in the same period.

Beef exports in 2019 are estimated at 330,000 MT, as Mexico continues to seek out new markets for its increasing production. Beef export value for 2018 remains unchanged at 305 MT. Mexico is trying to diversify its portfolio for beef exports, looking to maximize the profit of different cuts, products and by-products. Mexico increased its exports of fresh/chilled beef (HS code 0201) by 8.3 percent from January to October 2018. While the United States remained Mexico's main export destination for fresh/chilled beef with over 96 percent of the market, Mexico significantly increased its exports to Canada (an increase of 106 percent) and Japan (an increase of 50 percent) in 2018.

Mexico also increased its exports of frozen beef (HS 0202) by 23 percent in 2018. While exports to the United States saw a slight increase (3 percent), there were significant increases in the volume of exports to Japan (26 percent), Hong Kong (46 percent), and South Korea (142 percent).

The loins and rib eyes are the preferred cut for exports from Mexico as the rounds and offal the preferred choice for imports to Mexico.

Policy

Mexico Continues Efforts to Open New Markets for Trade

Mexico has continued its making efforts to diversify and open new export markets for its beef and pork, such as Vietnam, Indonesia, Singapore, China, Middle East and Egypt. While there are increasing beef exports to Japan, Hong Kong, and South Korea, Mexico has yet to gain significant ground in opening up other markets. While Mexico is still in discussions with Singapore, use of growth promoters remains an outstanding question in the negotiations.

Mexico is also looking to diversify its beef market through Halal certification. Although the United Arab Emirates as well as Qatar have opened their market to Mexican Halal products, Mexico has yet to be able to produce products that comply with those countries' Halal requirements. At this time, only a handful of companies are able to meet the Halal requirements and obtain the proper certificates for export to Egypt.

Mexico is working to open additional export markets for its products through new free trade agreements (FTA). Mexico plans to continue negotiations this year on FTAs with Brazil and Argentina in an effort to expand its trade markets. However, even after any agreement is finalized, it will take some time to establish protocols and begin trade. Mexico and the European Union (EU) announced an agreement in principle for an FTA in 2018, under which Mexico gained partial liberalization for its beef through TRQs, including 10,000 MT of beef and 10,000 MT of beef offals (both with a 7.5% tariff, phased-in over five years). Mexico will reportedly make finalizing the FTA with the EU a priority this year.

New North American Free Trade Agreement Not Yet Ratified

The conclusion of negotiations and signing of the new United States-Mexico-Canada Agreement (USMCA) in late 2018 promised to bring renewed certainty and stability to U.S.-Mexico trade relations. The agreement must still be approved by all three countries. The new USMCA will continue duty-free treatment for all food and agricultural products that were at zero tariff under the North American Free Trade Agreement (NAFTA).

Beef Grading Program

As reported previously, Mexico's government is trying to implement a project to develop a domestic beef carcass grading system that would help producers obtain different prices for different selected cuts for export to the United States. However, the program has polarized the domestic beef industry because of the multiple types of breeds, fattening systems and marbling throughout the country. The principal meat industry organizations have yet to come to agreement on the program.

Meat, Beef and Veal	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Market Begin Year	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Mexico						
Slaughter (Reference)	6070	6070	6160	6160	6240	6240
Beginning Stocks	0	0	0	0	0	0
Production	1925	1925	1960	1980	2000	2000
Total Imports	196	196	210	205	220	220
Total Supply	2121	2121	2170	2185	2220	2220
Total Exports	280	280	305	305	330	330
Human Dom. Consumption	1841	1841	1865	1880	1890	1890
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1841	1841	1865	1880	1890	1890
Ending Stocks	0	0	0	0	0	0
Total Distribution	2121	2121	2170	2185	2220	2220

(1000 HEAD) ,(1000 MT CWE)

Animal Numbers, Swine

Production

The forecast for swine production in Mexico for 2019 remains at 18.95 million head based on steady growth in the sector and growing domestic demand for pork. The recognition of Mexico as free of Classical Swine Fever (CSF) in January 2018 brought new certainty to the Mexican pork industry and boosted the confidence of major pork-producing states like Jalisco and Michoacán to invest in growing their livestock numbers.

ANFACA, the national association of animal feed producers, reports that the pork industry used 17 percent (6.4 million MT) of total feed production in 2017. They project this use by the pork sector to increase to 7.69 million MT by 2020.

As reported on the Cattle section, all previous government programs to promote livestock production have been eliminated under President Lopez Obrador's new administration.

Trade

The forecast for imports of live swine are expected to be 37,000 head in 2019, as higher numbers of swine are expected after reduced import numbers in 2018. Imports in 2018 were revised down to 34,000 based on official trade data. Mexico imported 20.5 percent fewer swine in 2018 than the previous year, reflecting the recent cyclical trends of strong imports followed by reduced imports of live animals the following year. Mexican producers continue to bring in swine to improve the genetics of the domestic herd in order to boost production to meet the increasing consumer demand for pork. As of November 2018, 70 percent of live swine imports came from the United States, while Canadian swine made up slightly less than 30 percent of the overall total.

No exports of live swine for 2019 are expected for 2019, following negligible exports in 2018.

Animal Numbers, Swine	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	10229	10229	10410	10410	10540	10541
Sow Beginning Stocks	1180	1180	1190	1190	1200	1200
Production (Pig Crop)	18100	18100	18500	18500	18950	18950
Total Imports	42	42	35	34	35	37
Total Supply	28371	28371	28945	28944	29525	29528
Total Exports	7	7	0	0	0	0
Sow Slaughter	15	15	15	15	15	15
Other Slaughter	17200	17200	17585	17585	18085	18085
Total Slaughter	17215	17215	17600	17600	18100	18100
Loss	739	739	805	803	835	827
Ending Inventories	10410	10410	10540	10541	10590	10601
Total Distribution	28371	28371	28945	28944	29525	29528
(1000 HEAD)						

Meat, Swine

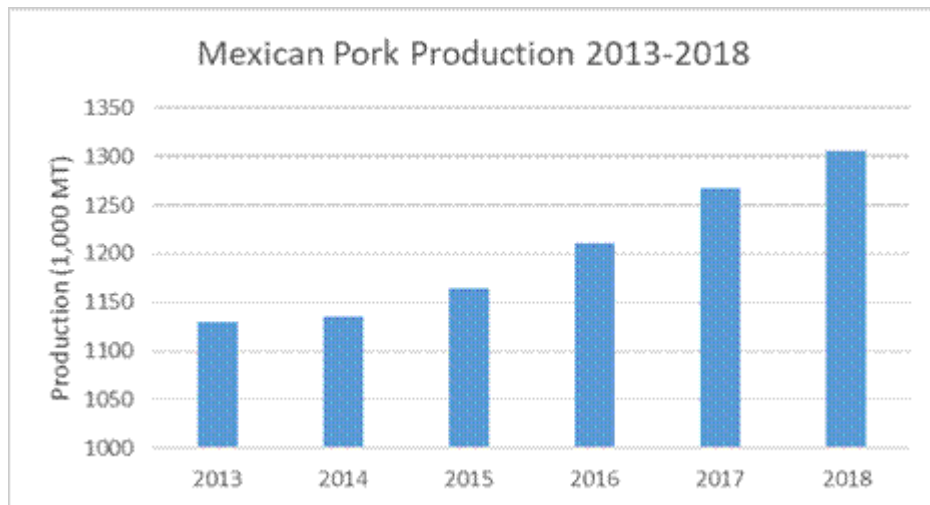
Production

Pork production in 2019 is forecast at 1.36 million MT based on increasing consumer demand stable feed prices, and the modernization efforts of the Mexican industry. The production estimate for 2018 increased to 1.32 million MT based on government production estimates.

The major pork-producing states in Mexico are Jalisco, Sonora, Puebla, Yucatan, Veracruz, and Guanajuato, which together produce more than 1 million tons per year, or more than 77 percent of total production.

Even with increasing domestic production of pork, Mexico is still unable to meet its own demand for pork, importing around 56 percent of its internal consumption. However, infrastructure modernization, vertical integration, and improved biosecurity are allowing Mexican pork producers to ramp up production to meet the increasing domestic demand for pork. Mexico's recognition as free from CSF has allowed states like Veracruz and Puebla to invest in facility expansion now that they have the certainty to be able to export their product.

Lack of slaughter facilities has previously constrained the growth of some producers, so companies like Granjas Carroll, one of the largest pork producers in Mexico, are taking additional control of their supply chain by building their own slaughter facilities. Granjas Carroll will soon open what will be Mexico's largest slaughterhouse for swine in 2019 in the State of Puebla. The facility already has TIF certification and the company plans to immediately begin exports to the United States, Japan, and South Korea.



Data Source: Fundacionantetif.org

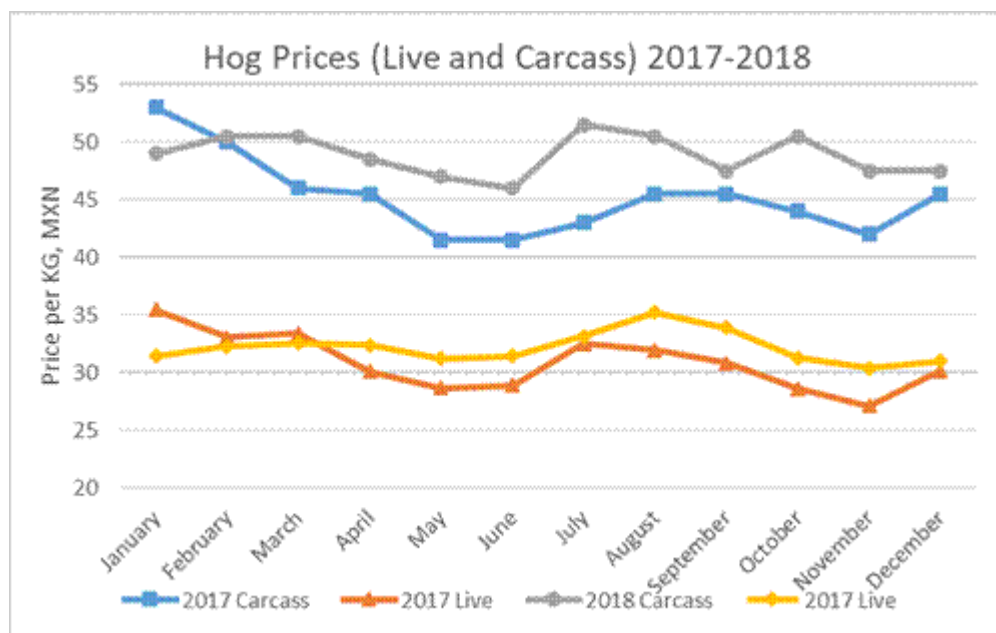
Consumption

The consumption forecast for 2019 is increased to 2.4 million MT, as demand for pork is expected to continue because of lower prices and consumer preference. The consumption value for 2018 was raised slightly to 2.326 million MT based on higher imports and continued demand.

Stable prices and rising per-capita consumption resulted in growth in both domestic production and imports to meet the rising demand. The prices in 2018 remained relatively stable (an average of \$52.53 MXN/Kg for hindquarters) with the traditional increase in price at the end of the year for the holiday season. Pork is the preferred protein for the holiday season in Mexico, with increased demand and higher prices from September through December.

Although the processing of value-added pork products in Mexico is increasing, consumer preference continues to be the purchase of primal, intact cuts in supermarkets. However, industry predicts that Mexican consumers will move to more value-added products, such as tenderized, sliced, or enhanced products in the next year.

Mexico has also become a pork processor as well as a producer. The U.S. Meat Export Federation (USMEF) estimates that roughly 70 percent of U.S. pork exports to Mexico are bound for processing and 25 percent to retail. Processing companies import pork raw materials from the United States, process them into products like hot dogs, sausages, hams, and novelty products in Mexican establishments, and then export or sell the finished products domestically.



Data Source: USMEF/SIAP

Trade

Imports of pork for 2019 are forecast at 1.25 million MT, demonstrating the continued demand for pork for the consumer and processing sectors. The 2018 value for imports is raised to 1.2 million MT based on official trade data.

Mexico's total imports of pork were 11 percent higher from January to October 2018 than during the same period the previous year. Much of the increase is from higher imports of fresh/chilled/frozen pork, with the majority of the product from the United States. Mexico also saw notable increases in pork imports under HS code 0203 from Canada (up 39 percent) and Spain (up 2248 percent).

Retaliatory Tariffs and Quota Fail to Restrict U.S. Pork Imports

As reported previously (see GAIN [MX8028](#) and [MX8034](#)), Mexico imposed retaliatory tariffs on a number of U.S. products in response to U.S. Section 232 action on steel and aluminum in June 2018. These retaliatory tariffs are still in place, with U.S. pork products facing 20 percent tariffs. In June 2018, Mexico also created a duty free tariff rate quota for 350,000 MT of pork to minimize the impact of the tariffs on Mexican pork processors who depend on imports. During the initial quota period (June 5 to December 31), only 2 percent, or 6,634 MT, of the quota was utilized. The quota was subsequently extended to January 31, with only 105 MT utilized during the first month of 2019. The quota is now extended again until March 31, 2019 with an additional 157,179 MT authorized. While the tariff quota was intended to encourage imports from non-U.S. suppliers, it appears that Mexican processors did not take advantage of the quota but rather maintained historical suppliers and imported the products at the higher tariff rates. However, it appears that U.S. producers are likely absorbing the extra costs of the tariffs by lowering their prices.

The retaliatory tariffs initially reduced the volume of U.S. pork imports into Mexico after their implementation, when monthly U.S. imports 10 percent were lower in June 2018 than in the previous month. Monthly imports from the United States stayed low through the summer but rebounded in September 2018 for the beginning of the holiday season. As of November 2018, U.S. exports of pork to Mexico had increased overall by more than 6 percent than at the same point in 2017.

While the United States is still the largest supplier of pork imports into Mexico, sourcing 85 percent of total Mexican pork imports, the retaliatory tariffs against U.S. product did provide an opportunity for other countries to fill the gap in imports. Canada gained market share by significantly increasing exports of several types of pork products (HS codes 020319, 020322, 020329, 021012, with increases of 120, 96, 75, and 55 percent respectively).

Mexico is the United States' largest export destination for pork products, accounting for more than one-third of total U.S. pork and variety meat exports by volume and 22 percent by value from January to November in 2018.

Exports

Exports of pork in 2019 are expected to increase and are estimated at 205,000 MT. The 2018 value was increased to 195,000 MT based on official trade data.

Japan is the main destination for almost 75 percent of Mexico's pork exports, with Mexico shipping almost 90 MT of fresh, chilled, and frozen pork to Japan between January and November 2018. Mexico also shipped sizable amounts of pork to the United States (13.8 MT) and South Korea (13.1 MT) and posted notable export increases to China and Chile during the same period.

Mexico's export advantage is its ability to meet the demands of diverse markets and provide different kinds of cuts for each country. For example, Mexico is able to provide Japan and Korea with very specific high value, labor-intensive cuts, while China seeks high volume but lower value cuts. The United States has a very specific product niche, preferring processed pork products and small portion

sizes.

Policy

As reported in the Beef Policy section, Mexico is looking to diversify its export destinations through new free trade agreements and expansion of products to meet the demands of new markets. Industry remains optimistic that new trade markets will be opened in 2019 and continue to motivate increased domestic pork production.

Meat, Swine	2017		2018		2019	
	Jan 2017		Jan 2018		Jan 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	17215	17215	17600	17600	18100	18100
Beginning Stocks	0	0	0	0	0	0
Production	1267	1267	1310	1321	1360	1360
Total Imports	1083	1083	1175	1200	1235	1250
Total Supply	2350	2350	2485	2521	2595	2610
Total Exports	170	170	180	195	190	205
Human Dom. Consumption	2180	2180	2305	2326	2405	2405
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	2180	2180	2305	2326	2405	2405
Ending Stocks	0	0	0	0	0	0
Total Distribution	2350	2350	2485	2521	2595	2610
(1000 HEAD) ,(1000 MT CWE)						

FAS/Mexico Web Site:

We are available at www.fas.usda.gov/regions/mexico or visit the FAS headquarters' home page 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 (SADER, formerly SAGARPA) can be found at <https://www.gob.mx/sader>, equivalent to the U.S. Department of Commerce (SE) can be found at <https://www.gob.mx/se/> and equivalent to the U.S. Food and Drug Administration (SALUD) can be found at <https://www.gob.mx/salud>. 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:

Report Number	Title of Report
MX8046	Mexico: Livestock and Products Annual
MX8034	The Phasing in of Mexican Retaliatory Tariffs
MX8028	Mexico Announces Retaliatory Tariffs Mexico