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GAIN Report

Global Agricultural Information Network

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Approved By:

Orestes Vasquez

Prepared By:

Xochitl Gomez

Report Highlights:

Sonora's growing pork industry will be the key driver of the growth of U.S. feed ingredients and pork genetics in the state. Meanwhile, the cattle and poultry sectors' growth will remain stable, nonetheless, these will continue demanding U.S. feed ingredients and genetics.

General Information:

Overview

The State of Sonora is located in northwestern Mexico. It is bounded by the states of Arizona and New Mexico to the north and by the Mexican states of Chihuahua to the east, Sinaloa to the south, and Baja California and the Gulf of California (Sea of Cortez) to the west. Hermosillo is the state capital.

Sonora, the second largest state in Mexico, is sparsely populated. Mountainous and arid, the region is sunny year-round with very little rainfall, reaching temperatures of more than 104°F during the summer months. Given its shared border with the United States, Sonora is also influenced by American trends and fashions.

Figure 1: Map of Sonora



FACTS & FIGURES

- **Capital:** Hermosillo
- **Size/Area:** 70,290 square miles
- **Population:** 2,987,473 (2016 Census)
- **Year of statehood:** 1830

Sonora's Dynamic Cattle Industry Facing Drought Conditions

The cattle industry is synonymous with Sonora. Its disease-free sanitary status, granted by USDA's Animal and Plant Health Inspection Service makes the cattle industry very export-driven, with over 90 percent of all steers and over 50 percent of heifers exported to the United States. In 2017, it was the leading cattle exporting state to the United States, with over 330,000 head (40 percent of all

exports), followed by Chihuahua with 220,000 head, and Tamaulipas with 105,000 head. Current prices have encouraged herd expansion; nonetheless, this trend could be affected if severe drought conditions persist during the month of June.

Cattle are raised using extensive production systems. Depending on the level of technology, the stocking rate varies from 10 hectare (ha):1animal unit (au) to 100 ha: 1au. Due to the current drought conditions, ranchers are selling off their animals before they reach their optimum weight of 300 lbs.

The more resourceful ranchers are currently sourcing feed and fodder to complement the lack of pasture in their fields and avoid overgrazing. Most of the fodder comes from Mexicali, creating a market opportunity for Imperial Valley fodder growers to supply the Sonoran cattlemen's demand.

Most of the cattle producers are members of the Union Regional Ganadera de Sonora. This flagship organization is made up of 96 local associations, with 30,000 associates with 5,700 herds, of which 87 percent have less than 30 head.

The Union plays a key role ensuring that a good supply chain is in place, acting as a buffer when input costs are considered to be especially high. In this capacity, it provides ancillary services such as transportation, feed, equipment, and insurance. However, the Union's key achievement is the establishment of auction pens in Hermosillo and Ciudad Obregon. Auctions take place on a weekly basis and have improved overall sales, as ranchers are able to sell their cattle in a transparent, standardized fashion, reducing the role of middlemen that used to exploit information asymmetries. Additionally, the Union operates a small feed plant, processing 13,700 metric tons (MT) of feed per year. According to the Union, it is the only plant in the world that produces a mixture of feed and fodder. The Union's own nutritionists develop formulas. The combination of ingredients is adjusted to fit the price of five pesos per kilo. The plant's main role is to control feed prices. All of the soy meal comes from the United States, as does about half of the corn (the remainder is from Sonora and Chihuahua).

It is important to note that the Union is very vigilant about Sonora's disease-free status, and works very closely with state government authorities to ensure that cattle crossing Sonora is duly inspected and that all paperwork is in place.

Poultry Industry: Highly Integrated and Stable

The Sonora poultry industry is focused on egg production, coming in third after Jalisco and Puebla with eight percent of total production at 230,000 MT. For many years, Sonora was Mexico's leader in egg production, reaching its peak in 1985 with a production of 420,000 MT. However, with the dismantling of CONASUPO, the government state trading enterprise, and its price controls, Sonora lost competitiveness to other States, as these could supply the Mexico City market cheaper and with what end-users considered a fresher product.

These changes forced Sonoran egg producers to cut back production. They now supply demand in Sonora, as well as 70 percent of Baja California's demand. Sonoran producers have also ventured into the U.S. market, due to their disease free status, but are cognizant that their comparative advantage lies in their domestic markets.

There are 15 egg producers that form la Union del Estado de Sonora. The 15 producers have 187 egg farms, and each of them has their own feed plant, feeding over 12 million layers throughout the State.

They also have a federally inspected processing plant (TIF), where the processing of hens takes place.

The Union directly contracts its feed ingredients, mostly from the United States. The producers consume close to 10,000 MT of soybean meal per month, all of U.S. origin, and 25,000 MT tons of grains, also mostly of U.S. origin, although it does buy local sorghum and corn.

Growth in this sector is expected to remain stable, as no new investments are currently under consideration.

Pork Production: A Growing Industry

Sonora's pork industry is witnessing increasing investment, and it is expected that by the end of 2018 the number of sows will increase to 180,000, from 150,000 in 2015, an increase of 20 percent.

Sonora remains the second-largest producing state, with 235,000 MT of production expected in 2018. Only Jalisco outpaces Sonora with 265,000 MT. Puebla follows Sonora with 167,000 MT.

Sonoran pork producers source their feed through the Union Ganadera de Porcicultores, made up of 30 to 40 members, in order to capitalize on prices and logistics. Members of this group operate large-scale vertically integrated operations, handling the whole process from breeding to growing, fattening, and processing. In addition, they have implemented sophisticated traceability systems, and the biggest players operate TIF (i.e., federally inspected) plants with a slew of certifications in order to export to Asia. Their top markets are Japan, South Korea and China.

U.S. feed ingredients producers capitalize on this market. The pork producers annually consume close to 145,000 MT of soybean meal and 25,000 tons of dry distiller's grains with solubles (DDGS), all of U.S. origin. Meanwhile, they consume 430,000 tons of corn and sorghum, of which 60 percent is of U.S. origin, while the rest is sourced from local production and from neighboring states such as Sinaloa and Chihuahua. Their genetics are mostly of U.S. origin.

Table Grapes: Solid Market

The Asociación Agrícola Local de Productores de Uva de Mesa, Frutas y Hortalizas started almost 31 years ago and currently has 45 members. The association members' main activity is the production of table grapes, but they have been expanding into the production of other produce, mainly watermelon, zucchini, and Kabocha squash, the latter for the Japanese market.

Table grape orchards cover an area of 14,000 ha and produce an average of 2,000 boxes/ha. The orchards are located around the cities of Hermosillo, Caborca, and Guaymas, where 95 percent of the national production of table grapes takes place. They are able to capitalize on a unique market window in the United States, when Chilean grapes are already out of the market but before the onset of California's harvest. The timing is advantageous for attaining attractive prices. Sonora exports between 80 and 90 percent of its production. In addition to exports to the United States, they also export to Canada, Europe, South America, Asia and the Caribbean. Sonora is also an important market for U.S. grape cuttings. Every ten years, orchards are replanted using U.S. table grape varieties. Yearly exports of vegetative material average close to \$45 million.