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The Babcock Institute
for International Dairy Research and Development

THE UNIVERSITY of WISCONSIN MADISON

International Dairy Notes

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WILL MEXICO BECOME MORE SELF-SUFFICIENT IN MILK PRODUCTION?

In recent years, Mexico's milk producers have supplied the raw product needed to meet only about two-thirds to three-fourths of domestic demand for dairy products. Mexico's milk production gap has produced a lucrative market for U.S. dairy products. In 2008, Mexico was the No. 1 market for U.S. skim milk powder, whey and lactose, and cheese exports. Exports of these three products to Mexico in 2008 (a year of record large U.S. dairy exports) were valued at $735 million or 19 percent of the total value of U.S. dairy exports for the year.

Mexico's government and the country's domestic dairy industry have sought to increase Mexico's milk self-sufficiency levels for many years. There was a push to increase self-sufficiency in the late 1980s and again in the mid to late-2000s. The latter move included efforts to increase the amount of domestically-produced milk used for government feeding initiatives under the Liconsa program for low-income people in Mexico. These measures appear to have done little to increase Mexico's long-run milk self-sufficiency levels.

The three scenarios listed below identify different possible movements in Mexico's milk self-sufficiency levels over the longer-run in normal (non-recessionary) times. In these scenarios, Mexico's dairy product consumption growth reflects the impacts of (a) population growth and (b) the product of income growth and an estimate of Mexico's income elasticity of demand for dairy products.

Scenario No. 1: (Low consumer income growth, moderate production growth).
- *Milk production increases by 1.9 percent per year (2000-2008 average rate).*
- *Dairy product consumption increases by 2.0 percent per year.*
- *Difference: Production - consumption = - 0.1 percent per year.*

Scenario No. 2: (High consumer income growth, moderate production growth).
- *Milk production increases by 1.9 percent per year (2000-2008 average rate).*
- *Dairy product consumption increases by 3.2 percent per year.*
- *Difference: Production - consumption = - 1.3 percent per year.*

Scenario No. 3: (Low consumer income growth, high production growth).
- *Milk production increases by 3.2 percent per year (1995-2008 average rate).*
- *Dairy product consumption increases by 2.0 percent per year.*
- *Difference: Production - consumption = 1.2 percent per year.*

Scenario No. 1 identifies essentially no change in milk self sufficiency. Scenario No. 2 forecasts declining milk self sufficiency. Scenario No. 3 identifies a situation where Mexico begins to close the production-consumption gap. However, this scenario is not likely to materialize because (a) Mexico lacks the manufacturing infrastructure needed to produce required quantities of certain high-demand dairy ingredients, and (b) milk production in Mexico's northern states will be constrained by water shortages and by the continued exodus of milk producers from Jalisco (Mexico's top milk-producing state) and much of southern Mexico.

The scenario results are consistent with U.S. Dairy Export Council and USDA forecasts that show little or no sustainable increases in Mexico's milk self-sufficiency levels.

U.S. dairy exporters are well positioned to meet the expected continued shortfall in Mexico's milk production because of location advantages and the zero tariffs for U.S. dairy exports to Mexico under the North American Free Trade Agreement. These advantages could be enhanced if U.S. firms tailor their exports to better satisfy Mexican consumer demand for certain cheeses and other dairy products.

More information on Mexico's dairy market appears in Babcock Institute Discussion Paper No. 2009-2 entitled, "The Dairy Sector of Mexico: A Country Study." Discussion Paper 2009-2 can be accessed at the Babcock Institute website: babcock.cals.wisc.edu

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