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In late February, the Mexican government imposed a temporary duty of 30% on imports of fresh milk and other dairy products from the US. The measure announced by the Secretaria de Economia (SE) and the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) was intended to help dairy producers in Jalisco state sell excess production on the domestic market.

The decision by President Vicente Fox's administration to impose the duty temporarily suspends provisions in the North American Free Trade Agreement (NAFTA), which in 2003 eliminated duties for all US and Canadian dairy exports to Mexico except for powdered milk.

Administration sources did not say how long the duty would remain in place, but promised the measure was only temporary. "An analysis carried out by the SE and SAGARPA makes it foreseeable that the excess-milk phenomenon will be temporary and that marketing conditions will normalize in the coming weeks," the SE said in a press statement.

Along with the imposition of temporary duties, the Mexican government obtained a pledge from the Mexican dairy-products industry that it would increase purchases from dairy farmers in Jalisco by 1 million liters. The SE said the surplus in Jalisco is unusual for the early part of the year because producers seldom have excess production in January and February.

Mexican dairy producers said, however, that the surplus is symptomatic of the problems facing the industry, which has seen its share of domestic sales drop sharply. Producers contend many products imported from the US since duties were eliminated in 2003 are nutritional supplements or processed or value-added items, which are displacing products manufactured with fresh milk in the Mexican domestic market.

The US Department of Agriculture (USDA) confirms that Mexico was a very lucrative market for the US dairy industry even before duties were eliminated in 2003. "The signing of NAFTA has increased opportunities for US dairy products in Mexico," the USDA's AgExporter magazine said in July 2003. "With US$201.6 million worth of sales in 2002, Mexico is the largest (and fastest growing) market for certain US products: nonfat dry milk, fluid milk, cheese, yogurt, and ice cream."

The concerns about the imports led a group of dairy producers from four states to organize a protest in front of the SE headquarters in Mexico City in mid-March. As part of their actions, the producers spilled 1,000 liters of spoiled milk at the doorstep of the SE. The 200 protesters who said they were representing 15,000 small-scale dairy producers in Hidalgo, Veracruz, Jalisco, and Aguascalientes states demanded that the government take steps to halt excessive imports of dairy products, many

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of which they said enter the country illegally. They also asked the government to urge Mexican food companies to reduce reliance on imports and increase consumption of domestic dairy products.

The protesters, accompanied by 12 federal legislators, succeeded in scheduling a meeting with Economy Secretary Sergio Garcia de Alba, who agreed to examine the concerns of the dairy industry more closely. As a result of the meeting, the secretary moved to create a commission comprising dairy producers and representatives of various federal agencies to study the problems facing the industry and propose solutions.

## *Structural problems hamper Mexican dairy industry*

Some industry observers say the Mexican dairy industry suffers from structural problems that prevent it from competing against imports, including an inability to produce sufficient product for the domestic market. "Mexico's dairy industry is currently unable to supply all the country's needs," AgExporter magazine said in July 2003. "Poor sanitation and genetics, inefficient cold storage and refrigeration, and outdated transportation and marketing facilities hamper expansion."

Observers said any thoughts of expansion in the last two years were hampered by an embargo imposed by the Mexican government on imports of any US cattle, including dairy cows. The restriction was imposed following the discovery of mad cow disease in a cow in Washington state in 2004 (see SourceMex, 2004-01-21). "Because of the restriction, domestic milk production increased by only 1% in 2005," said the Mexico City daily newspaper Reforma.

The Mexican dairy industry will face even greater problems in 2008, when duties are eliminated on all imports of powdered milk to comply with NAFTA provisions. Mexico presently allows a limited amount of powdered milk, about 52,000 metric tons, to enter the country free of duties. Any imports beyond this amount are levied a duty of 58.7%. Even with the duty in place, Mexico imported US $358 million worth of US powdered milk in 2005, the highest level in 12 years, said Ernesto Larrondo, secretary of the Asociacion Nacional de Ganaderos Lecheros (ANGLAC).

Larrondo blamed the increase in part on low international prices, which make imports more attractive than domestic milk. He said producers in other countries, including the US, have an unfair advantage because their governments subsidize dairy production. "In Mexico, the price of powdered milk is 5 pesos (US$0.46) per kilogram, compared with 3 pesos (US$0.28) in the international market," said Larrondo. "The food industry naturally opts for the imports." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on March 15, reported at 10.64 pesos per US$1.00] (Sources: AgExporter-US Department of Agriculture, 07/03; Finsat, Dow Jones newswires, Associated Press, 02/28/06; Reforma, 02/14/06, 03/03/06; Notimex, 11/08/05, 02/14/06, 03/09/06; El Universal, 03/14/06; La Jornada, 03/15/06)

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