

## INDUSTRY SECTOR ANALYSIS

**Title:** **Mexico – Food Processing Machinery and Equipment**

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Contacts: Gerardo Victorica, Senior Commercial Specialist,  
[gerardo.victorica@mail.doc.gov](mailto:gerardo.victorica@mail.doc.gov)

Approving Officer: Isabella Cascarano, Principal Commercial Officer  
[Isabella.cacarano@mail.doc.gov](mailto:Isabella.cacarano@mail.doc.gov)

### SUMMARY

The Mexican food processing industry is changing, fueled by robust local demand for processed foods and beverages and a growing export market, particularly the United States. Strong foreign competition in processed foods and new customer behavior are also accelerating this change. To remain competitive Mexican food processors are exploring new technologies and, in some cases, investing to modernize or maximize production facilities.

Due to a weak Mexican technology base in this sector, there are plenty of opportunities for foreign companies to gain entry in the Mexican food processing market. Main competitors for U.S. manufacturers in this sector are the Europeans. Opportunities exist for U.S. companies with competitive technology and prices. Service and top of the line quality are not necessarily considered value-added if product price is too high. Used and refurbished equipment are excellent business areas to consider as well.

#### 1. MARKET OVERVIEW

The Mexican processed food market is evolving. Increasingly, Mexicans are shopping for groceries at large retail stores instead of smaller venues. Supermarkets had an increase in total sales of 9.6% in 2004 compared to 2003, while "mom and pop" stores saw a sales decrease of 3.1% in the same period. This is significant because the larger establishments stock a greater quantity of processed foods, and require better food presentation, product differentiation, and extended shelf life.

This change in the retail sector has important implications for the Mexican agro-business and food processing sectors, since supermarkets are increasingly establishing market entry terms and conditions. Supermarkets in Mexico now sell \$12 billion USD of food a year and thus offer producers an

important internal market. More than 60% of supermarket food sales are processed foods and 40% are fresh products.

In 2003, the total sales of the Mexican food processing industry reached a level of U.S.\$31 billion, 9.2% higher than in 2002.

## 2. MARKET TRENDS.

The food processing sector in Mexico has twelve major segments as shown below.

<b>General description</b>	<b>USD\$</b>	<b>%</b>
Beverages and softdrinks	6,706,201	21.54%
Liquid milk processing and packaging	2,636,537	8.47%
Sugar and sub-products made out of sugar cane	2,280,785	7.32%
Baking	2,196,244	7.05%
Snacks and other corn products	2,009,780	6.45%
Edible oils	1,980,226	6.36%
Dairy products manufacturing (include cream, butter and cheese)	1,617,175	5.19%
Processing and packaging of fruits and vegetables	1,537,340	4.94%
Manufacturing of syrups, concentrates and colorants for food	1,309,378	4.21%
Meat and poultry abattoir	1,196,575	3.84%
Milk processing to convert liquid milk to condensed or dehydrated milk	1,106,772	3.55%
Meat processing to convert it in cold cuts	975,896	3.13%

*Source: INEGI. Aggregated production in 2003.*

From 2002 to 2003, the Mexican processed food industry increased production by 9.9%, one of the most significant increases in Mexico's overall industrial production. In 2003 the Mexican food processing industry (in total 30 different segments including the 12 above) comprised approximately 20% of the total industrial output of Mexico.

Demand for capital equipment in this industry varies according to segments. In some areas there is a 40% under-utilization of machinery and equipment. This has kept overall investment figures in food processing machinery at lower growth levels compared to processed food production and sales. Nevertheless, there are plenty of companies in certain segments that are investing in machinery and equipment. A recent study in Jalisco, Mexico's third largest food processing industrial base, showed that 25.8% companies from the sample consulted invested an average of U.S.\$ 1.2 million each in 2003. This investment was broken down in the following areas: machinery and equipment 70%, infrastructure (included construction and installations) 24%, working capital 4%, training 1% and research and development 1%.

Mexican consumers are also driving technology investments by becoming more demanding in terms of food quality, food presentation and hygienic considerations. They are seeking fresher flavors and better packaging. Additionally, retailers are demanding longer shelf life for products.

The Mexican food industry is competing against finished products coming from virtually all over the world. Mexico is one of the most open economies with more than 30 free trade agreements, which include the European Union, Israel, South and Central America and North American Free Trade Agreement with the United States and Canada. With increased foreign competition, Mexican industry has had to become more sophisticated in the processing of their locally manufactured food products, and have invested more resources in research and development and marketing.

### 3. IMPORT MARKET

The Mexican local supplier base for equipment and machinery for processed food is small. Other than refrigeration equipment or some specialized technology for particular food sectors, such as tortillas, etc, national production of equipment and machinery is limited. Although there are manufacturers associated with the Chamber of Transformation, local Mexican companies in this sector, with few exceptions, are micro or small companies with limited research and development budgets to cover the growing needs of the industry.

Foreign food processing technology, machinery and equipment is therefore the main source of capital goods for Mexican food processors. In fact, many U.S. and European machinery and equipment manufacturers have established manufacturing operations in Mexico in the last years in order to serve this market.

The main source of equipment and machinery for the Mexican food processing industry continues to be Europe, though the U.S. is not far behind. The U.S. market share of total imports is 45.2%. See following data:

Mexican Import Market for Food Processing Machinery and Equipment  
Millions of U.S. Dollars

	2000	2001	2002	2003
Total Imports	1,490	1,412	1,116	1,440
Imports from U.S.	818	808	577	600

*Source: Mexican Government statistic. Secretaria de Economia and Banco de Mexico.*

Following is a general breakdown of U.S. food processing machinery and equipment exports to Mexico:

Product	HS Code	U.S. Exports U.S. \$ Millions
Refrigerators, freezers, and related equipment	8418	223
Cooking, heating, and drying equipment	8419	160
Machinery for filling, closing, and labeling	8422	73
Filters for liquids, centrifuges	842111/19/22/21	57
Other equipment for food processing	8438	38
Weighing and weight operated counting machines	8423	17
Flour mill equipment	8437	4
Milking and dairy machinery	8434	4
Machines to manufacture wine and juice	8435	1

*Source: Banco de Mexico, 2003.*

#### 4. COMPETITION

The Mexican food processing equipment market is very competitive. Mexican firms are historically very close to European food processing manufacturers because the original business owners hailed from Europe and founded the first bread, dairy and beverage companies in Mexico in the 18<sup>th</sup> and 19<sup>th</sup> century. Italy, Spain, Germany, and Switzerland continue to be important suppliers to this day. In some sectors the U.S. has less than 30% of import market share. However, there should be opportunities for companies with new technologies or low cost equipment.

U.S. firms are competitive in sub-sectors where high productivity and mass production is required, like beverages, snacks, candies and edible oils. Also U.S. firms have opportunities with Mexican companies that are exporting to foreign markets since the import requirements of many countries require strict sanitary conditions, specialized packaging and extended shelf life.

Main Mexican players in food processing machinery and equipment are primarily in the cold chain sector. Mexican refrigeration manufacturers have developed home grown technology and are competitive against international players. Another area that is well developed in Mexico is the manufacture of stainless steel implements and equipment, including tanks, mixers and workstations.

A growing trend in Mexico is to have an in-house engineer tailor technology to meet the specific needs of the food processor. This could be an advantage to U.S. companies that sell system components, but obviously not to those that sell fully automated machinery or turnkey projects.

## 5. END USERS

A unique characteristic to Mexico is that food processing technology end users are mainly small and mid size companies. According to official statistics more than 90% of Mexican companies have less than 50 employees. This is true also for companies in this sector.

End users are concentrated mainly in 5 geographic areas in Mexico, and are responsible for more than 60% of total processed food production:

Mexico City	16%
State of Mexico	16%
Jalisco	12%
Veracruz	7%
Nuevo Leon	7%

Mexican companies are accustomed to buy from distributors in this industry. Medium and small companies rarely import directly from foreign suppliers as the process to obtain import permits is difficult and time consuming. End users often rely on distributors for initial training, spare parts and service.

## 6. SALES PROSPECTS

The fastest growing segment in this industry is the beverage sector, which has grown by two-digits every year for the past five years. This sector represents an important opportunity for U.S. firms because companies in the beverage industry, mainly foreign companies, are open to new technologies and are investing in research and development. Beer is included in this segment.

There is also a growing demand for used and refurbished machinery and equipment. Buyers of used machinery frequently are small companies that are starting industrial operations. U.S. manufacturers often offer used and refurbished machinery in Mexico that has been traded in by U.S. customers who have bought new equipment. Used machinery can be considered U.S. originating when a certificate of origin is issued and there is predominant

U.S. content in the machinery or equipment, or in the work applied to refurbish the machinery. For more information on certification of origin call 1-800-USATRADE.

## 7. MARKET ACCESS

NAFTA eliminated trade barriers U.S. for manufactured products entering Mexico. Food processing machinery and equipment is import duty exempt when it is manufactured in the U.S. and accompanied by a certificate of origin. To qualify for NAFTA origin the exporter should use one of the methods to confer origin to a product: total cost method, change in tariff classification, or manufacturing using NAFTA materials in a facility in the U.S. The certificate of origin should be completed and signed by the exporter and could cover a period of time up to a year.

Taxes that will apply to food processing machinery and equipment imported into Mexico include the Value Added Tax (VAT) of 15% and the Mexican Customs processing fee of 0.08% on the value of the merchandise.

No other requirements, such as import permits, are required by Mexican authorities as of the date of this report (November 2004), but we recommend that you check with your nearest U.S. Export Assistance Center on a case by case basis, as import requirements in Mexico are subject to change.

## 8. UPCOMING TRADE SHOWS

Alimentec – A new trade show focused on food processing machinery and equipment. This small show is organized by a private company and supported by the Jalisco Chamber of Food Processors.  
Venue: Expo Guadalajara, Guadalajara, Mexico  
Dates: First week of October  
Web page: [www.alimentec.com.mx](http://www.alimentec.com.mx)

Pack Expo – Focused on general industrial packaging material, this show is visited by buyers and decision makers in the food processing industry. It is a good option for companies in the food processing industry as the show organizer states that 7% of total exhibitors belongs to this sector.  
Venue: Expo Santa Fe, Mexico City, Mexico  
Dates: Third week of June  
Web page: [www.expopack.com.mx](http://www.expopack.com.mx)

For more information on export opportunities in this sector, please contact your nearest U.S. Export Assistance Center ([www.export.gov](http://www.export.gov)) or:

Gerardo Victorica

Senior Commercial Specialist  
US Commercial Service – US Consulate Guadalajara  
Ph. 52-33-3615-0980  
Fx. 52-33-3615-7665  
Email: [gerardo.victorica@mail.doc.gov](mailto:gerardo.victorica@mail.doc.gov)