9-7-1994

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Imports Of U.S. Milk Create Controversies in Chihuahua, Baja California

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Category/Department: Mexico
Published: 1994-09-07

A shortfall in domestic production of fresh milk in Mexico has created new opportunities for US dairy farmers to boost exports to communities and states bordering the US. The opportunities, however, have been followed by separate controversies in Tijuana and Ciudad Juarez this year.

In Tijuana, US fresh milk imports were restricted temporarily by state authorities in May, while in Ciudad Juarez, drivers of delivery trucks carrying US fresh milk have been intimidated, allegedly by domestic dairy producers. The US fresh milk imports remain controversial despite a duty of 9% that the Mexican government imposed on those imports in April. Because of the duty, a gallon of US fresh milk is more expensive in supermarkets in Mexico than domestically produced fresh milk. For example, last May the price of a gallon jug of fresh milk imported from Sarah Farms in Arizona sold at US$2.34 at the Calimax supermarket in Tijuana, compared with US$2.18 for a gallon from Baja California-based Jersey dairy.

Similarly, fresh milk sold under three US brands Price's, Farmer's, and Borden was priced at US $1.91 per gallon in Ciudad Juarez during late July, compared with US$1.69 for domestic fresh milk. Despite the duty, domestic producers argue the measure is insufficient to offset the production subsidies received by US dairy farmers. In mid-June, cattle producer organizations, local business leaders, and state officials from western states met in Ensenada, Baja California state. At the meeting, cattle producers urged the federal government to take further steps to limit the "excessive" import of US fresh milk into Baja California, Sonora, and Colima states.

Sergio Loperena Nunez, president of a regional cattle producers' organization in northwestern Mexico told the government news agency Notimex that imports of US fresh milk were displacing about 500,000 liters of milk per week in Baja California, especially in Tijuana, Mexicali, Ensenada, and Tecate. In fact, Loperena suggested that the imports of US milk were directly responsible for driving the local milk processor Golden out of business this year.

How does NAFTA affect situation?

On the other side of the argument, US dairy farmers have complained that the Baja California restrictions violate the spirit of the North American Free Trade Agreement (NAFTA). Under terms of NAFTA, Mexico received an exemption on dairy items and other "sensitive" agricultural products, which will not receive a full duty-free status until after a 10-year transition period. The agricultural section of NAFTA does allow Mexico to impose limited tariffs, such as the one imposed in April for dairy. Conversely, NAFTA prohibits Mexico from imposing new non-tariff restrictions, such as quotas, during that period for the sole purpose of protecting the domestic industry. In fact, this provision of NAFTA was cited by US dairy producers when the Baja California state agricultural development secretariat ordered the Calimax grocery chain in late May to remove Sarah Farms milk from its shelves. At that time, state authorities said the measure was needed to protect Baja...
California's dairy industry, which employs 120,000 workers directly or indirectly through such activities as production of alfalfa for cows, raising dairy cattle, and processing milk. "The state government is very concerned about protecting the jobs and the economic benefits that the milk industry generates," said Baja California agricultural development official Jose /Manuel Salcedo Sanudo in an interview with the Associated Press.

Baja California officials justified the order to remove the milk on the grounds that Sarah Farms had failed to obtain a state permit to sell milk in Baja California. However, the officials also conceded that foreign companies would have difficulty obtaining such permits, since the state must consider how local industries would be affected.

Still, the unilateral actions taken by Baja California state authorities forced the federal Agriculture Secretariat (Secretaria de Agricultura y Recursos Hidraulicos, SARH) to intervene. In early June, SARH official Ramon Real Lizardi warned state authorities at a hearing in Tijuana that the forced removal of milk from Calimax shelves may well represent a violation of NAFTA's provisions that prohibit the setting of import quotas. Real said he would convene a meeting of state and federal agriculture and trade authorities and Baja California dairy producers to attempt to find a solution to the problem.

In Washington, a US trade official said President Bill Clinton's administration was watching developments in this case very closely, but was not planning any immediate action. The issue was also addressed but not resolved during a meeting attended in Mexico City during late May by US Agriculture Secretary Mike Espy, Mexican Agriculture Secretary Carlos Hank Gonzalez, and Mexico's deputy trade secretary Herminio Blanco. In a more recent controversy involving imports of US milk, in late July the Chihuahua attorney general's office agreed to investigate death threats and assaults against drivers for the three US dairy companies distributing milk in Chihuahua: Price's, Farmer's, and Borden.

In addition, state authorities are also investigating the destruction of three delivery trucks and a Price cold storage warehouse in Ciudad Juarez, which were allegedly set on fire deliberately. Chihuahua authorities have also been pressured to resolve the cases by US officials. In early July, US Rep. Ronald Coleman, D-Texas whose district includes El Paso, Texas asked the US Justice Department to review the incidents to determine if any action is warranted by US federal authorities. At the heart of the controversies in Tijuana and Ciudad Juarez is the inability of local dairy farmers to produce enough milk to supply the domestic market. For example, SARH official Real told participants at the hearing in Tijuana in early June that local dairy farmers will be able to supply only about 164 million liters of milk in Baja California this year, which is far short of consumer demand of 209 million liters. He suggested the imports from US suppliers are necessary to make up for the difference.

The National Confederation of Cattle Producers (Confederacion Nacional Ganadera, CNG) itself has acknowledged a severe shortfall in milk production at the national level. In a report released in late August, the CNG predicted that national demand for milk will surpass production by an average of 9 million liters per day, which translates to roughly 3.2 billion liters for the entire year. The CNG did not release a production estimate for 1994, but in a recent report the organization reported last year's
output at about 7.1 billion liters. In recent years, Mexico has imported an average of 2.4 billion liters of fresh milk. In the report, the CNG criticized the policies of President Carlos Salinas de Gortari and previous administrations toward the dairy sector, which the organization claims has focused on providing subsidies to dairy farmers to produce large numbers of low-producing dairy cattle, which yield only three to four liters of milk per day.

The CNG suggested that the government support should instead be channeled toward breeding of specialized dairy cattle that produce higher volumes of milk. In addition, the report called on the government to develop new marketing programs that take into account input from both producers and consumers. Meantime, the stance of local dairy producers to oppose imports has also caused some disagreements with local retailers and chambers of commerce.

At the meeting in Ensenada in mid-June, Manuel Montenegro Espinoza of the Hermosillo chapter of the National Chamber of Commerce (Camara Nacional de Comercio, Canaco) said the restriction on milk imports is hurting consumers. Montenegro suggested that because of the severe shortage of milk in Mexico, the domestic market is large enough to accommodate both US imports and domestically produced milk. Two weeks earlier, in the hearing presided by SARH official Ramon Real in Tijuana, Calimax supermarket general manager Gilberto Fimbres testified that the restriction on imports can create other disadvantages for the state economy. He said there is nothing to stop consumers in Baja California border communities like Tijuana, Mexicali, and Ensenada from crossing the border into the US to shop for milk and other groceries. He said, by making US milk available in Baja California, more consumers will tend to spend their money for other grocery items in Mexico instead of the US.

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