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## **Mexican Corn Production Could Suffer from Impact of Peso Devaluation**

*by LADB Staff*

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The devaluation of the peso and the economic crisis it produced in Mexico is having a major impact on agricultural producers, who have been unable to obtain loans for seed, fertilizers, and other inputs due to high interest rates, a heavy debt burden, and high inflation. While President Ernesto Zedillo's administration has taken steps to provide some relief to farmers through loan restructuring and direct assistance, there is widespread concern that those efforts may have come too late to stop a possible reduction in production of corn and other staple crops this year. No official forecasts for corn production have been released for this year, but concerns have increased that the financial debacle that has gripped the country since December has prevented a significant number of producers from planting their crops, which will have a profound impact on production for the coming season.

Comercializadora Agropecuaria de Occidente (Comagro), a private organization, reported corn output for the 1994-1995 autumn-winter cycle at only 3 million MT, compared with 4 million MT a year before. However, the bulk of the corn crop is produced in the spring-summer season, which could reduce output much more for this year. According to a study conducted by agricultural researchers at Universidad de Chapingo, Mexico's economic crisis may force agricultural producers to abandon 5.7 million hectares of corn and beans this year, compared with the 9.2 million ha. anticipated. The researchers said the country's economic crisis only exacerbates a problem that already existed, that many of the producers were unable to remain competitive given former president Carlos Salinas de Gortari's decision to ease restrictions on agricultural imports and to eliminate guaranteed prices for these basic products.

Under Salinas's special supports program (Programa de Apoyos Directos al Campo, Procampo), the government substituted the guarantee program with direct supports for production. Mexican government officials themselves have recognized that corn producers are facing something of a crisis but have attempted to minimize those concerns. For example, Javier Bonilla Garcia, director of the government's basic foodstuffs company (Compania Nacional de Subsistencias Populares, Conasupo), denied that this year's corn crop would decline significantly.

"Production is not in danger, it is at the levels that were forecast for this year," Bonilla told La Jornada. "I believe that producers will continue to produce corn and the agricultural products that are important to our country." Indeed, on April 15 Conasupo reported that corn supplies are sufficient enough to produce the amounts of tortillas needed to meet the needs of the population this year. Therefore, the agency announced that the price of corn sold to tortilla producers would remain unchanged at 225 pesos (\$37.56) per MT in the Federal District and 425 pesos (US\$70.95) per MT elsewhere in the country. A few days earlier, the federal government announced an increase of 20 centavos (US\$0.03 cents) per kilo of tortillas, the first increase in four years. The price of tortillas, is now 90 centavos per kilo (US\$0.15 cents), or more than 25% above the previous price of

70 centavos per kilo (US\$0.12 cents). Nazario Palomera, head of the tortilla producers organization (Asociacion Nacional de Proprietarios de Molinos y Tortillerias), said the increase of 20 centavos (US \$0.03 cents) provides almost no benefit to producers. He said realistically, prices should increase to 1.50 nuevo pesos (US\$0.25 cents) per kilo.

Still, skepticism about this year's production prospects persists. According to a Comagro estimate, only 2% of the 2.5 million corn producers in Mexico have enough financial resources of their own to proceed with planting this year. Comagro sources said, for example, that most producers will not be able to afford fertilizer prices, which have increased by an average 40% to about 715 pesos (US\$119) per metric ton. If corn production falls short, President Zedillo will be facing a political dilemma, forcing him to either allow a sharp increase in corn imports from the US or to allow corn prices to increase. A hike in corn prices would result in even higher prices for corn tortillas, a staple in the Mexican diet. Under the North American Free Trade Agreement (NAFTA), Mexico retained the right to continue to regulate "highly sensitive" agricultural products such as corn.

Some international economists are promoting the alternative of eliminating restrictions on corn imports. For example, a group of consultants from the World Bank in a report released in April recommended that the Zedillo administration allow the tariff-free import of corn. According to the report, by setting the price of Mexican corn at world market levels through the elimination of tariffs would have the effect of imposing a ceiling on the price that livestock producers pay for feed. It would also establish a "just" price for corn producers prior to the harvest period. The consultants also suggested that Conasupo limit purchases of corn from domestic producers, except in cases of surplus production in areas where the cost of transportation to market is high. On the other hand, the consultants recommended that the Zedillo administration continue to subsidize the price of tortillas. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 21, reported at 5.99 pesos per US\$1.00] (Sources: Notimex, 03/31/95; La Jornada, 03/26/94, 03/30/95-04/15/95; Associated Press, 04/15/95; Financial Times, 04/16/95)

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