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Natural Disasters, Economic Crisis Reduce Mexico's Output of Basic Crops

by LADB Staff

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Damage from three tropical storms in September and October, an extended drought in northern states this year, and the impact of the peso devaluation are expected to severely reduce production of basic crops. As recently as July, the Agriculture Secretariat (Secretaria de Agricultura, Ganaderia y Desarrollo Rural, SAGDR) was projecting a decline of 30% in total output of basic crops relative to 1994. Several private and government crop forecasters now raise the possibility that total output could drop to roughly one-half or less of last year's levels. The most painful reduction is expected to come in the production of corn, which is considered one of the basic elements of the Mexican diet. The Agriculture Secretariat (Secretaria de Agricultura, Ganaderia y Desarrollo Rural, SAGDR) forecasts 10 million metric tons of corn this year, compared with a total crop of about 21 million MT last year. In contrast, as recently as May, the SAGDR had projected Mexican corn production at a still relatively high 19 million MT for 1995, but this forecast was made before the effect of a drought in some areas of Mexico was fully assessed (see SourceMex, 06/07/95).

In a report issued in mid-October, the SAGDR's national market information service (Servicio Nacional de Informacion de Mercados, SNIM) said the drought in northern and some central states could reduce total corn production by as much as 5 million MT from earlier estimates. According to the SNIM, the drought forced farmers in the states of Chihuahua, Tamaulipas, Coahuila, Nuevo Leon, Zacatecas, and Sinaloa to abandon about 700,000 ha. of corn in the past spring-summer cycle. This is almost twice as high as the 400,000 ha. estimated by Agriculture Secretary Francisco Labastida Ochoa in late August. The SNIM report said the drought also severely reduced planted area for other crops in these states, including beans, wheat, rice, soybeans, sesame seed, and cotton. Meantime, according to Agriculture Secretary Labastida, the Roxanne and Opal hurricanes may have caused the loss of at least 180,000 ha. of agricultural products in the four southeastern states: Campeche, Tabasco, Yucatan, and Quintana Roo.

Other observers, however, suggest Labastida's estimates may have been understated, with losses estimated to the tune of at least 225,000 ha. According to one estimate, the storms may have destroyed as much as 85% of the corn and sorghum production and 40% of the rice crop in Campeche state. In Campeche alone, losses are estimated at about 85,000 ha. of corn, 1.2 million ha. of sorghum, and 5.7 million ha of rice as a result of the two storms. In addition, the storms ruined about 10,000 ha. of grassland used for cattle grazing. Thousands of cattle and other livestock were also lost in these states because of the storm. And, the storms caused severe damage to the fisheries industries and forced the state-run oil company PEMEX to suspend drilling and other activities in the Gulf of Mexico. The storms in the southeast come on the heels of hurricane Ismael, which caused extensive damages along the Pacific Coast in September, especially the key agricultural states of Sinaloa and Sonora. Ismael is said to have destroyed about 67,000 ha. of corn and other basic crops in those two states.

Even before the arrival of the hurricanes in September and October, some agricultural producers were already projecting a severe decline in agricultural output due to the drought and the economic crisis in Mexico. For example, in early October, the national union of agricultural workers (Union Nacional de Trabajadores Agrícolas, UNTA) had already projected that Mexico this year would produce the smallest amount of basic crops in 15 years. In an interview with the Mexico City daily newspaper *El Universal*, UNTA director Alvaro Lopez Rios blamed much of the decline on Mexico's economic crisis. Through a combination of high prices and a surge in interest rates, many producers have been unable to purchase fertilizers, seed, and other products.

On top of that, the crisis aggravated problems with overdue debt, leaving many producers unable to obtain credit to purchase seed and inputs. In early September, another agricultural organization the corn producers union (Union Nacional de Productores de Maiz, UNPM) estimated that government and private financial institutions only provided credit for about 480,000 ha. of corn this year, out of a total of 8 million ha. of land planted to corn in Mexico each year. In an article published in the daily newspaper *Excelsior*, columnist Marcel Morales Ibarra said a lack of credit resulted in a sharp reduction in the use of such items as higher- yielding corn seeds, fertilizers, insecticides, and herbicides.

"Under these deplorable conditions, one can expect that yields will also be marginal," he said. Despite the expected decline in production, Agriculture Secretary Labastida told reporters that the Zedillo administration has taken strong steps to ensure that there is no shortage of basic foodstuffs in Mexico this year. For example, to help make up for an expected shortfall, the administration is expected to dip into the reserve stockpiles held by the government food agency (Compania Nacional de Subsistencias Populares, Conasupo). As of late September, Conasupo's reserve stockpiles stood at 1.8 million MT. The government will have to sharply increase its imports of corn and other agricultural products, most of which are shipped from the US. Indeed, anticipating a decline in production this year, the Trade Secretariat (Secofi) authorized duty-free imports of 1.67 million MT of US corn to supplement domestic supplies.

Secofi expects to authorize entry of another 1 million MT of corn to Mexico duty-free by year-end 1995 (see *SourceMex*, 06/07/95). In addition to duty-free imports, shipments of US corn at market prices are due to rise because of the reduced production. According to the SAGDR and private economists, Mexico will have to import 1.2 million MT of corn this year and as much as 7 million MT of corn from the US in 1996 in order to ensure an adequate supply for the domestic market. Mexico's imports of agricultural products were already on the increase in 1994, due to relaxed import restrictions after the North American Free Trade Agreement (NAFTA) was enacted earlier that year. In calendar year 1994, the first year of NAFTA, US agricultural exports to Mexico reached an all-time high of US\$4.5 billion, a 27% increase over 1993.

Notwithstanding the statements by Agriculture Secretary Labastida and other members of the Zedillo administration, *Excelsior* columnist Ibarra said Mexico will soon begin to experience shortages of basic foodstuffs, perhaps by the fourth quarter of 1995. Ibarra criticized the Zedillo administration for a lack of long-term planning for the agricultural sector, which could have severe repercussions once a shortage develops. For example, Ibarra questioned whether the administration is prepared to deal with such contingencies resulting from a shortage, including agricultural price

speculation. Ibarra also noted a strong disparity by region in the price that farmers are paid for corn in Mexico, ranging from 850 nuevo pesos (US\$125.00) per MT in Baja California to 948 nuevo pesos (US\$139.50) in Jalisco.

"The government never told us how they arrived at this price structure," said Ibarra. Finally, Ibarra accused the Zedillo administration of lacking policies to deal with the long-term problems in agriculture. For example, he noted that the president had promised to present a new rural development program by the middle of October but has failed to do so. "The date has passed and no such announcement has come from the government, nor has there been any explanation for the lack of the announcement," said Ibarra. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on Oct. 24, reported at 6.80 nuevo pesos per US\$1.00] (Sources: El Economista, 08/31/95; El Universal, 10/10/95; Agence France-Press, 10/18/95; La Jornada, 09/20/95, 09/23/95, 10/20/95; Notimex, 10/20/95; Excelsior, 10/20/95, 10/23/95)

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