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LADB Staff

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## **Government Estimates Direct Losses From Drought At 8 Billion Pesos This Year**

*by LADB Staff*

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In a study released in late May, the Agriculture Secretariat (SAGDR) reported that Mexico's farming sector will suffer at least 8 billion pesos (US\$1.05 billion) in losses this year because of a severe drought that has gripped several northern areas, and some central zones as well. In a press conference, Agriculture Secretary Francisco Labastida Ochoa said livestock producers will absorb about 4 billion pesos (US\$520 million) in damage, or roughly one-half of the agricultural sector's total losses for this year.

The drought which has reduced many reservoirs to less than 10% of their capacity has had an especially devastating impact on five northern states that border the US: Chihuahua, Baja California, Coahuila, Tamaulipas, and Nuevo Leon. According to some estimates, the drought has decimated about 40 million hectares of grassland in those northern states, and in other cattle-producing zones. Cattle numbers in Chihuahua alone have declined by 15,000 this year.

Meanwhile, reservoirs in the drought-stricken areas have declined to all-time lows of 10% of capacity or below. Reservoirs in some areas of Chihuahua and the Laguna region in southern Coahuila-southern Durango have fallen to an estimated 3% to 4% of their capacity. "There is a sense of desperation in the livestock-producing regions," said one federal legislator who recently toured the drought-stricken zones.

For his part, Cesar Gonzalez Quiroga, director of the country's largest livestock-producers organization (Confederacion Nacional Ganadera, CNG), said ranchers in the northern areas have been unable to find sufficient forage for their cattle and have been forced to sell about 700,000 animals. According to Gonzalez, a high percentage of these cattle would have died if they had not been sold. Gonzalez said many of the cattle were sold at prices below market value because the animals are lighter than normal because of a lack of feed and water.

According to some estimates, cattle have lost an average of 30 kilograms per head. In a separate estimate, the Union Nacional Ganadera (UNG) said the lingering drought has forced producers in northern Chihuahua state to reduce their herds by one-third since 1993. The Mexican poultry industry is also facing conditions similar to the cattle ranchers, including spiraling production costs. According to Florentino Alonso, director of the national poultry-producers association (Asociacion Nacional de Avicultores, ANA), the cost of feed and other inputs has increased by about 247% since the end of 1994. Alonso said poultry producers in the states of Puebla, Jalisco, Nuevo Leon, Sonora, Sinaloa, Coahuila, and Durango have seen a substantial portion of their flocks die off because of the drought.

The SAGDR estimates that the drought has caused direct damage to at least 4.6 million ha of cropland. However, that estimate does not include land that farmers were unable to plant with new

crops as a result of dry conditions. Such areas span an additional 6 million ha. The SAGDR said the unplanted area will probably reduce production of grains and beans by as much as 3 million metric tons this year. The largest grain-producing states in Mexico are located in central areas of the country, where the drought has been less severe. Still, the lack of adequate moisture will force producers in the key grain-producing states Jalisco, Zacatecas, Durango, and Guanajuato to abandon about 1 million ha of crop land.

According to the national agricultural council (Consejo Nacional Agropecuario, CNA), total output of the country's five major grains and oil seeds corn, sorghum, soybeans, wheat, and oats will reach only 23.77 million MT this year, a decline of 11.4% from the 26.8 million MT produced in 1995. A recent SAGDR report projected corn production at 16.37 million MT this year, a decline of almost 15% from the 19.25 million MT produced in 1995. Still, the national corn-growers union (Union Nacional de Productores de Maiz, UNPM) believes the estimate of 16.37 million MT may be slightly optimistic, since the full extent of the damage may not be known until the end of the season.

In a newspaper interview, UNPM president Abel Castellanos said this year's corn crop could vary between 12 million and 16 million MT. The situation is similar for wheat. According to the CNA, Mexico's wheat crop is expected to reach only 3.9 million MT, a decline of 9.5% from 1995. The national confederation of rural property owners (Confederacion Nacional de Propietarios Rurales, CNPR) released its own estimate, suggesting that the drought has already decimated 10 million MT of basic grains this year. According to the CNPR, this has resulted in potential loss of 19 billion pesos (US\$2.5 billion) in income for Mexican agricultural producers.

The reduction in planted areas has had a direct impact on some support industries. For example, according to the daily newspaper *Excelsior*, sales of ammonia-based fertilizer have plunged drastically this year because many farmers have been unable to plant their crops. The reduced grain production has also created concerns about tightening supplies of feed for the livestock industry, as well as a possible shortage of goods needed by the Mexican population. Attempting to address these concerns, Agriculture Secretary Labastida claimed that the grain reserve held by the state-run foodstuffs agency CONASUPO is sufficient to cover demand for human consumption for at least three months.

Additionally, Labastida said domestic supplies will be supplemented by imports of grain, which are expected to approach 11.24 million MT, an increase of almost 35% from the 8.3 million MT imported last year. During this decade, imports have fluctuated from a low of 6.17 million MT in 1991 to a high of 10.37 million MT in 1994. In fact, some government officials admit that imports could surpass 12 million MT if the drought continues. According to Labastida, President Ernesto Zedillo's administration will soon announce a new program offering the affected states about 1.14 billion pesos (US\$150 million) in special drought assistance. The bulk of the assistance will be channeled to the states of Chihuahua, Baja California Sur, Coahuila, Nuevo Leon, Sinaloa, Sonora, Tamaulipas, Veracruz, San Luis Potosi, Zacatecas, Veracruz and Durango.

Labastida says the funds will be allocated for programs to increase supplies of drinking water, create employment in the agricultural sector, upgrade agriculture-related infrastructure, and develop ways

to deal with future droughts. Still, Labastida attempted to cast a positive spin on the situation, citing forecasts by prominent meteorologists that rainfall will increase in some areas of the country by June or July. The Secretary admitted, however, that the rain would not reverse the impact of the drought. Rather, it would help reduce future losses. Labastida also suggested that the increase in imports will have only a marginal impact on Mexico's overall agricultural trade balance. He said exports of vegetables mainly from Sonora and Sinaloa states are expected to bring about US\$1.9 billion in revenue, which will more than balance out basic-grain imports of about US\$1.4 billion.

Mexico's reliance on increased imports has created concerns in some circles. "The need to meet domestic food needs is without doubt one of the greatest challenges facing this administration," read a report in *Excelsior* in early June. According to government and private studies, Mexican imports of basic crops are expected to account for one-third of the total domestic consumption of foodstuffs this year. One report, published by the CNA's economic-studies division, estimates that corn imports this year will supply about 57% of human and animal consumption in Mexico this year. The situation is similar for beans, where imports are needed to cover 74% of total domestic demand. Imports of wheat will cover about 32% of domestic demand. "The drought in the northern tier of states is not necessarily the principal cause of this decline, although it certainly has been a factor," said *Excelsior*. "The financial problems of the agricultural sector have become a significant disincentive to produce."

*Excelsior* said that Mexican producers have faced a series of problems in recent years, such as a surge in overdue debt, the elimination of certain direct subsidies for production, and the opening of the agricultural market to imports from the US and other countries. The federal government has thus far taken some steps to address the issue of overdue debt, but many agricultural organizations suggests the measures are insufficient. The agricultural sector accounts for a large percentage of the US\$18 billion in overdue debt owed to commercial banks in Mexico. Because of the inability to pay past debts, many producers have been unable to obtain new loans to buy fertilizers, seed, feed, and other inputs required for their operations. The debt problems have been magnified by the continuation of high interest rates. Some agriculture-related organizations, such as *El Barzon* and the CNG, have strongly urged the Zedillo administration to deal more directly with the problem.

*El Barzon* an organization founded by middle-class farmers held a huge public demonstration on May 1 urging the administration to provide more relief for farmers with overdue debt. And, in late May, the CNG passed a resolution at its annual assembly urging the government to create a special financial agency (*fideicomiso*) to deal exclusively with the problems of overdue debt in the agricultural sector. According to the proposal, the agency would assume a portion of the debt owed by agricultural producers. There was no immediate reaction from the administration to the CNG proposal. However, the administration working closely with the banking industry and the national agricultural council (CNA) is drafting its own comprehensive plan to restructure the overdue debts of agricultural producers. Details of the program are expected to be announced sometime in June. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on June 10, reported at 7.57 pesos per US\$1.00] (Sources: *Notimex*, 04/11/96; *Agence France-Presse*, 04/10/96, 05/27/96, 05/29/96; *Novedades*, 05/21/96, 05/30/96; *La Jornada*, 04/11/96, 04/24/96, 04/29/96, 05/06/96, 05/16/96, 05/22/96, 05/24/96, 05/28/96, 06/05/96; *Excelsior*, 04/24/96, 04/26/96, 04/29/96, 05/06/96, 05/24/96, 05/28/96, 05/30/96, 06/05/96; *Reforma*, 05/28/96, 05/30/96, 06/06/96)

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