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Pilot Project Allows Some Tortilla Manufacturers to Sell Above Pre-Set Prices

by LADB Staff

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In early August, the Trade Secretariat (SECOFI) initiated a pilot project to determine if a limited number of tortilla manufacturers can produce a better quality product under market conditions. Under current practice, virtually all the 140,000 tortilla manufacturers in Mexico purchase cornmeal at prices subsidized by the government. In return for the subsidies, the tortilla manufacturers must sell tortillas at or below a price set during the annual negotiations on an anti-inflation agreement. For this year, representatives of business, labor, and the government negotiated a price of 1.40 pesos (US\$0.18 cents) per kilogram.

Under SECOFI's new pilot project, a total of 10 tortilla manufacturers in Mexico City and Guadalajara are allowed to sell tortillas above 1.40 pesos (US\$0.18 cents). "These tortilla retailers will be able to charge a higher price as long as the raw materials they use are not subsidized by the government," said deputy trade secretary Eugenio Carrion Rodriguez. According to SECOFI and the consumer protection office (Procuraduria Federal de Proteccion al Consumidor, PROFECO), the project known informally as "Tortillas Plus" will attempt to determine whether corn millers can produce a higher quality product if they are allowed to charge higher prices.

In exchange for being allowed to charge a higher price, the 10 tortilla manufacturers had to follow a strict set of guidelines to participate in the project. The principal stipulation is that the corn millers purchase cornmeal on the open market, and not the subsidized meal that is widely available to the majority of tortilla manufacturers in Mexico. Other regulations deal specifically with hygiene and the type of equipment required for manufacture of tortillas, such as stainless steel counters and nonpolluting machinery. A survey conducted by the daily newspaper La Jornada found that the tortilla manufacturers participating in the pilot project were selling their product at prices ranging from 1.60 pesos (US\$0.21 cents) to 3.00 pesos (US\$0.40 cents) per kg. The higher price was more than twice the official price of 1.40 pesos (US\$0.18 cents). According to the survey, the tortillas sold by the retailers participating in the project generally had a better texture, flavor, and appearance than those sold in most other establishments.

For many of the participants in the pilot project, sales of tortillas were only a part of the business, which generally included a deli or a market of some sort. On the other hand, La Jornada said many of the retailers were not in total compliance with the regulations established by SECOFI. The newspaper did not mention the nature of the violations. PROFECO director Fernando Lerdo de Tejada told the daily newspaper El Universal that his office will allow the 10 tortilla manufacturers some flexibility at first. "The industry must modernize now or face collapse in the not-so-distant future," said Lerdo de Tejada. "We have to ensure that this industry becomes self-sufficient and not rely so much on subsidies, which are becoming more costly for the government."

The "Tortillas Plus" experiment has raised opposition from some labor and consumer groups, who are worried that the project may set a precedent for the government to eventually eliminate subsidies on tortillas. Responding to those concerns, Lerdo said the government will proceed very carefully with any changes resulting from the project. "We will work to ensure that the modernization of the corn milling and tortilla industry has no adverse impact on the population," he said.

For his part, Trade Secretary Herminio Blanco Mendoza emphasized that the government will continue to impose price controls on tortillas. Speaking at a trade and business exhibition in Mexico City, Mendoza said any modifications to prices will have to be negotiated annually through the anti-inflation agreement. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 20, reported at 7.47 pesos per US\$1.00] (Sources: Notimex, 08/08/96; El Diario de Yucatan, 08/09/96; La Jornada, 08/14/96, 08/15/96; Novedades, 08/14/96, 08/15/96; El Universal, 08/19/96)

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