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Higher Milk, Tortilla Prices Go into Effect at Start of Year

by LADB Staff

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In late December, the Trade Secretariat (SECOFI) implemented its scheduled increase in the price of tortillas and milk. Under the increase, the price of pasteurized milk was raised to 4.00 pesos (US\$0.51 cents) per gallon in Mexico City and 22 states, an increase of 0.40 centavos (US\$0.05 cents) from the previous price of 3.60 pesos (US\$0.46 cents).

Similarly, the price of tortillas increased by 30 centavos per kg to between 1.70 pesos (US\$0.21 cents) and 2.00 pesos (US\$0.25 cents), depending on the region of the country. SECOFI justified its decision to allow the higher prices, citing the higher cost of production incurred by the corn milling and dairy industries. A SECOFI spokesperson said the higher prices would help 38,000 businesses remain economically viable and preserve some 160,000 jobs.

However, Nazario Palomera, director of the tortilla industry association (Asociacion de Proprietarios de Tortillerias y Molinos de Nixtamal de la Republica Mexicana), told reporters the increase in the price of tortillas is insufficient to compensate for a 15-year operating deficit in the industry. "The increase is only enough to help defray the costs of inputs, such as diesel, electricity, and gas," said Palomera.

According to SECOFI, the increase in milk prices could help dairy producers boost output, which would help Mexico become self-sufficient within a period of four years. "The Mexican dairy industry has all the necessary elements to become competitive in milk production," said SECOFI.

SECOFI has given dairy producers the option of raising prices by another 20 centavos (US\$0.02 cents) per gallon in September of 1997 if they can prove that their production costs have increased during the first eight months of the year. According to SECOFI, once Mexico is able to produce the amount of powdered milk needed for domestic consumption, the country will save about US \$450 million per year, which is currently spent on imports. SECOFI statistics show that Mexico's powdered-milk imports have ranged between 150,000 and 200,000 metric tons in recent years.

Furthermore, SECOFI said reaching self-sufficiency could result in the creation of 15,000 to 20,000 jobs in the dairy industry. Surprisingly, few complaints were heard following the increase in tortilla and milk prices. The strongest protest came from Alvaro Rios, leader of the national agricultural workers union (Union Nacional de Trabajadores Agrícolas, UNTA), who warned that the price increase will actually suppress demand for these basic products. Rios said many poor people will now have to cut back on their purchases of these products. Meanwhile, reactions from the labor congress (Congreso del Trabajo, CT) and the workers confederation (Confederacion de Trabajadores de Mexico, CTM) were relatively mild.

CTM leader Fidel Velazquez warned that labor leaders would "allow workers the freedom to protest the increases in whatever manner they find appropriate," unless the government agreed to a CTM

demand to suspend the effective date for the tortilla and milk price increases until an alternative solution was negotiated. CTM leaders said they were hoping a rollback in the price increases would allow labor leaders to negotiate a sliding wage scale to allow wages to better adjust to inflation.

Labor Secretary Javier Bonilla quickly ruled out the CTM's proposal to roll back the price increases, but promised to take steps to ensure that prices do not increase above the 30 centavos (US\$0.04 cents) that went into effect in December. Bonilla also dismissed the labor leader's request for a change in the salary structure, which he said is "not convenient at the moment," and which would violate the annual anti-inflation and economic-growth agreement (Alianza para el Crecimiento Economico, ACE) reached by labor, business, and government representatives in November (see SourceMex, 11/13/96).

On the other hand, Bonilla told reporters the Zedillo administration does not foresee the need for any further increases in the price of other basic products. The Zedillo administration has begun strict vigilance to ensure that retailers do not take advantage of the increased prices for milk and tortillas. In early January, the consumer protection office (Procuraduria Federal del Consumidor, PROFECO) shut down more than 250 tortilla outlets in Michoacan, Jalisco, Guanajuato, Veracruz, and Tamaulipas states for selling their product at prices higher than the official price of 1.70 pesos (US\$0.21 cents) per kg. PROFECO is also taking steps to prevent retailers and producers from selling milk above the government-set prices and to ensure that the milk is not watered down or the quality otherwise jeopardized.

Despite the lack of widespread protest to the higher tortilla and milk prices, the CT and the committee for protection of salaries (Comite Mixto de Proteccion al Salario, CONAMPROS) issued a report to underscore the increase in the price of consumer goods since 1994. According to the report, salaries would have to double from current levels for the average worker to keep pace with inflation levels since 1994. The report said the monthly cost of the basket of consumer goods for a family of five had risen to 1,732 pesos (US\$221) by November 1996, with the minimum wage at about 670 pesos (US\$85.80) per month.

In December 1994, the cost of the basic basket of goods was 724.50 pesos (US\$92.76), with the minimum wage at 458.10 (US\$58.65). This means the cost for the basic basket of goods increased by 1,007 pesos (US\$128) from December 1994 to November 1996, while the minimum wage grew by only 212 pesos (US\$27) during the same period.

The report noted the price for one liter of fresh milk has almost doubled since 1994, while the cost for 340 grams of powdered milk is now about 131% higher than in 1994. Additionally, the CT and CONAMPROS report said prices have more than doubled for such basic foods as dry beans, cornmeal, cooking oil, and eggs. The study only compared the price of basic foods and did not examine the large increases in other basic necessities, such as health, housing, and clothing. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 8, reported at 7.81 pesos per US\$1.00] (Sources: La Jornada, 12/27/96, 12/30/96; Excelsior, 12/31/96, 01/02/97; El Universal, 01/04/97, 01/07/97; El Economista, Novedades, 01/07/97)

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