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Mexican Government Ends All Price Controls, Subsidies on Tortillas

by LADB Staff

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The government ended all price controls and subsidies on tortilla production as of Jan. 1, raising costs by between 15% and almost 75% for Mexican consumers. Despite an industry pledge to increase the price by only 50 centavos (US\$0.05) per kg, many retailers were selling tortillas for as much as 2.50 pesos (US\$0.25) per kg higher than the prevailing price of 3.00 pesos (US\$0.30) at the end of 1998.

Private and government surveys showed many retailers were complying with the industry pledge to sell tortillas at about 3.50 pesos (US\$0.36) per kg on the date price controls were lifted. Still, the private consumer rights group Asociacion Mexicana de Estudios para Defensa al Consumidor (AMEDEC) and the government's Procuraduria Federal de Proteccion al Consumidor (PROFECO) found numerous instances throughout Mexico, particularly in small towns and rural areas, where retailers were selling tortillas for as much as 4.60 pesos (US\$0.47) per kg.

The daily newspaper El Universal reported that some retailers were selling tortillas for 5.50 pesos (US\$0.56) per kg. The report said prices were close to 5.00 pesos (US\$0.51) per kg in some of the poorest states like Michoacan, Guerrero, Tlaxcala, and Zacatecas. In Chiapas, some residents were crossing into Guatemala to purchase lower-cost tortillas and other consumer products. "About 1,000 persons are crossing daily into Malactan, Tecun, Uman, and even Coatepeque, Guatemala," border agents told El Universal.

Industry spokespersons acknowledged that "some retailers" had raised prices considerably because they were not certain where real market levels would end. "There is no technical reason why prices should be higher than 3.50 pesos (US\$0.36)," said Alfonso Cebreros, president of the Camara Nacional de Maiz Industrializado. "This price is sufficient to cover the cost of raw materials and allow the industry to modernize."

Increase hurts low- and medium-income Mexicans

The increase in tortilla prices is expected to further erode the purchasing power of most low- and middle-income Mexicans, whose wages have not kept up with the increase in the cost of most consumer goods during the past several years. To compensate for higher food costs, labor unions demanded that the Comision Nacional de Salarios Minimos (CNSM) approve an increase of 23% in the minimum wage for 1999. But the CNSM approved an increase of only 14% for this year (see SourceMex, 12/09/98).

The elimination of all price controls and production subsidies was part of President Ernesto Zedillo's two-year strategy to allow free-market forces to determine the price of tortillas. The Zedillo administration began to ease price controls and eliminate subsidies to producers in December

1996, when tortillas were selling at 1.60 pesos (US\$0.16) per kg. The administration justified the elimination of subsidies and price controls as necessary for the tortilla industry to survive. "The sector will see greater competition, which will ensure higher quality and more efficiency in the production of tortillas," said a spokesperson for tortilla-industry giant Grupo Industrial Maseca (GRUMA).

The administration had also argued that subsidizing tortilla production was inefficient because this allowed all income groups to buy tortillas at the same low cost. But some economists have pointed to studies showing that poor Mexicans eat four times as many tortillas as rich families, who prefer bread. As part of the new policy, the Zedillo administration phased in a new program to allow poor families to acquire tortillas free or at a very low cost. But some economists point out that the government may be spending more money on the new program than it did previously subsidizing the entire production of tortillas. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 6, reported at 9.77 pesos per US\$1.00] (Sources: Reuters, 01/01/99; Associated Press, 01/03/99; El Economista, 01/04/99, 01/06/99; Novedades, 01/04-06/99; La Jornada, El Universal, 01/05/99, 01/06/99)

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