2-10-1999

Producers, Business Sector Worried About Loss of State Foodstuffs Agency

LADB Staff

LADB Article Id: 54428
ISSN: 1054-8890

Producers, Business Sector Worried About Loss of State Foodstuffs Agency

by LADB Staff
Category/Department: Mexico
Published: 1999-02-10

The state-run foodstuffs agency Compania Nacional de Subsistencias Populares (CONASUPO) is scheduled to cease operations the end of March, potentially leaving many producers without a viable buyer for their corn. The CONASUPO phaseout is part of President Ernesto Zedillo's plan to end price controls and eliminate production subsidies for tortillas, which went into effect the beginning of this year (see SourceMex, 01/06/99). CONASUPO paid a guaranteed price to farmers every season for their corn, beans, and other foodstuffs regardless of global prices.

The disappearance of the government agency will leave farmers at the mercy of supply and demand, which could mean lower prices for their products. The federal government has been preparing for the elimination of CONASUPO, which only acquired 400,000 MT of grains from farmers out of the 15 million MT anticipated for the 1999 spring-summer cycle.

The grain was acquired principally from farmers in Chiapas, Michoacan, Nayarit, Chihuahua, Jalisco, and Mexico states. Many agricultural and business organizations have raised concerns that the new free-market approach will be distorted further by the North American Free Trade Agreement (NAFTA), particularly regarding corn.

Some argue the disappearance of CONASUPO has removed the last layer of protection for farmers against lower-priced US imports. Pablo Castanon, vice chair of the agricultural-industries committee of the Confederacion Patronal de la Republica Mexicana (COPARMEX), said the a phaseout of tariffs on US corn under NAFTA has coincided with a period of low prices for most Mexican products, resulting in unfavorable trends for most producers.

"We have seen a rise in imports, a growth in agricultural debt, a permanent increase in the cost of production, a lack of opportunities for producers to market their crops, and low prices," said Castanon.

Intermediaries begin to fill void

The void left by the pending disappearance of CONASUPO has fostered an increase in the number of wholesalers whose main incentive is profits. Gerardo Aranda, director of the COPARMEX agricultural industries committee, estimates that adding intermediaries to the marketing process has raised the price of corn and other produce by 130% or more. "This provides no benefits whatsoever to either producers or consumers," said Aranda.

The daily newspaper La Jornada reports CONASUPO's anticipated disappearance has already lowered prices for producers. Farmers are only able to obtain between 900 pesos (US$89) and

ISSN: 1054-8890

1,600 pesos (US$159) for each MT of corn, compared with a production cost of at least 1,800 pesos (US$178) per MT. Some organizations like the Confederacion Nacional Campesina (CNC) have negotiated directly with millers. In a contract signed in early February with the Grupo Empresarial de la Industria de la Masa y la Tortilla (GEIMT), the CNC obtained 1,600 pesos (US$159) per MT.

But the CNC contract appears to be the exception, not the rule. On average, many millers were offering 1,300 pesos (US$129) per MT at a new corn-auction market launched in Mexico City the beginning of February. The disappearance of CONASUPO will have a greater impact on poorer states like Chiapas, where farmers were able to sell their corn to the government, which provided some subsidies for transportation and had less stringent quality demands. Celia Moreno, an officer for the Central Independiente de Obreros Agricolas y Campesinos (CIOAC), said farmers in these poorer states will now have to rely on intermediaries, known as "coyotes," who will pay them much lower prices than CONASUPO.

"While many farmers in Chiapas at one time sold their corn to CONASUPO for 1,200 pesos (US$119) per MT, the best they can receive from the coyotes is 1,000 pesos (US$99)," said Moreno. "They earn nothing from their harvest and are left with barely enough corn to feed their families."

The disappearance of CONASUPO will also affect bean farmers, who are receiving very low prices for their produce. Javier Padilla Estrada, head of the Union Estatal de Productores de Frijol in Zacatecas state, said the large distributors in Guadalajara, Monterrey, and Mexico City are gaining control of the market and dictating prices.

"The government did not have the capability to develop an alternate marketing program to replace CONASUPO," said Padilla Estrada. "Now, some 60,000 producers have been left to market their products on their own." Padilla said farmers in Zacatecas, one of the most important bean-producing states in Mexico, have been selling their produce to distributors for 3.50 pesos (US$0.34 cents) per kg in recent weeks. These beans are ultimately sold to the public at 8.50 pesos (US$0.84 cents) per kg.

The federal government also failed to provide alternatives for other CONASUPO functions, such as importing powdered milk. CONASUPO, which held the exclusive right to import powdered milk, has typically imported about 80,000 MT of the product annually. Imports account for 30% of all powdered milk consumed in Mexico.

Milk-industry executives said CONASUPO continued auctions of powdered milk in December and January, even though the company is scheduled to disappear at the end of March. "We have not been informed how this process will be handled in the future," said executives of Grupo Industrial Lala and Evaporadora Mexicana, two of the companies that acquired the imported milk from CONASUPO through auctions. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 10, reported at 10.06 pesos per US$1.00] (Sources: La Jornada, 02/01/99, 02/02/99, 02/05/99; El Economista, 12/14/98, 02/04/99, 02/05/99, 02/10/99; Novedades, 12/14/98, 02/05/99, 02/10/99)

LADB Article Id: 54428
ISSN: 1054-8890

-- End --