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## Sharp Drop in Tortilla Consumption Tied to End of Subsidies, Price Controls

by LADB Staff

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Consumption of tortillas has declined significantly since the beginning of this year, when the federal government completed its phaseout of subsidies to corn millers and eliminated price controls. The subsidies, phased out over a two-year period, were completely eliminated as of Jan. 1, 1999 (see SourceMex, 1999-01-06).

The elimination of government supports, along with the disappearance of the state-run foodstuffs company (Compania Nacional de Subsistencias Populares, CONASUPO) this year has increased the cost of tortillas beyond the reach of many Mexicans, particularly the poorest segments of the population, said Victor Suarez Carrera, director of the Asociacion Nacional de Empresas Comercializadoras de Productores del Campo (ANEC). The cost of tortillas had increased to 3.50 pesos (US\$0.37) per kg as of August this year, compared with 1.90 pesos (US\$0.20) in January 1998. Suarez said this increase of more than 84% is almost three times as high as the 29% increase in Mexico's minimum wage during the same period.

The higher tortilla prices are compounded by the decline in the purchasing power of most Mexicans. Statistics published by the Banco de Mexico (central bank) show the purchasing power of Mexicans fell by 24% between December 1994 and July 1999.

### *Many poor Mexicans unable to afford tortillas*

Studies confirm the increased cost of tortillas will have a greater effect on the poor than on middle- and higher-income Mexicans. One study, published by the Instituto de Investigaciones Economicas (IIE) at the Universidad Nacional Autonoma de Mexico (UNAM), said low-income Mexicans obtain half their daily calories from tortillas. The IIE study was supported by similar findings released by the Instituto Nacional de la Nutricion Salvador Zubiran in 1995, which said tortillas were the main staple for families who earned the equivalent of three or fewer minimum wages.

The reduced consumption has affected the large conglomerates as well as small and medium-sized millers. Grupo Industrial Maseca (GRUMA) and Grupo Minsa, Mexico's two largest tortilla producers, said tortilla sales during the first half of the year were down significantly from a year ago. GRUMA's sales in January-June were down about 13.2% from a year ago, while Minsa reported a decline of 20.4% in the same period. During the past two years, the government repeatedly said that the move to a free-market system was necessary for millers to recover costs of production and preserve jobs in the sector (see SourceMex, 1998-09-23). But the move has had the opposite effect, with many small and medium-sized millers forced to close down or reduce their work force because of reduced sales.

"Many businesses are failing," said Eleazar Centeno, an executive with the Alianza de Industriales Proprietarios de Molinos y Tortillerias. Corn production also declining Suarez said the decline in

tortilla consumption has been accompanied by reduced corn production since the North American Free Trade Agreement (NAFTA) went into effect. Mexico's per-capita production of corn plummeted to 297.6 kg in 1998, a decline of 9% from the 326.7 kg recorded in 1990. At the same time, per-capita imports of corn totaled 121.3 kg in 1998, compared with 103.7 kg in 1990, said Suarez. The decline in corn production is attributed in large part to low domestic prices, which are tied partly to increased imports of US corn under NAFTA. A report published in May by the agricultural business unit of Banamex said prices paid to producers are expected to reach only 1,500 pesos (US\$159.90) per metric ton this season. While this is about 200 pesos (US\$21.30) more per MT than those paid by CONASUPO in its final year of existence, they are still 15% lower in real terms than prices paid two years ago, the report said. Suarez said the government's decision to phase out CONASUPO eliminated the last line of defense for the poorest segments of the population. "Now that the agency is gone, there is no one to absorb the excess corn in one region of the country and transfer it to areas of deficit," said Suarez. CONASUPO ceased operations at the end of March (see SourceMex, 1999-02-10).

The low prices, combined with the reduced demand by corn millers, have increased inventories in warehouses. In a recent report, Grupo Banorte said at least 600,000 MT of corn are stored in warehouses in Sinaloa. The increased domestic supplies have led some critics to wonder why the Secretaria de Agricultura, Ganaderia y Desarrollo Rural (SAGAR) has authorized the importation of 3 million MT of corn from the US during 1999. SAGAR officials say the corn imports will continue as scheduled this year. But they said the imports will be timed in such a way that they do not enter the country during the harvest season, when prices tend to decline.

The elimination of import tariffs is only one effect of NAFTA on Mexican corn production. Everardo Lovera, leader of the Federacion de Productores de Maiz, questioned the quality of corn seed that major companies like Monsanto, Pioneer, and others are introducing to Mexico. This corn seed, said Lovera, is genetically engineered and could affect yields and biodiversity.

The matter is complicated because many companies have secured patent rights for their products in Mexico. Lovera called on the government to renegotiate NAFTA terms to increase protections for Mexican corn producers. But he said the government must take other steps to promote corn production in Mexico by facilitating the purchase of farm machinery and the construction of wells and reservoirs to retain rainwater. The increased commitment by the government to the corn sector could help address extreme poverty, since more than 300,000 families depend on marketing corn for 70% of their income, said Lovera. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sep 1, reported at 9.38 pesos per US\$1.00] (Sources: Novedades, 04/23/99; El Economista, 05/05/99; La Jornada, 08/20/99, 08/23/99; El Universal, 09/01)

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