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High Global Corn Prices Boost Cost of Tortillas in Mexico

by LADB Staff

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Soaring global corn prices have caused the price of tortillas in Mexico to increase gradually in recent weeks, creating a political dilemma at the start of President Felipe Calderon's administration. The Calderon government is under pressure to act to help bring down the cost of tortillas but has ruled out a return to the price controls eliminated in 1999 (see SourceMex, 1999-01-06 and 1999-09-01).

Instead, the government has announced plans to expedite imports of white corn and to subsidize production to increase supplies. These measures could well help bring down corn and tortilla prices in the medium to long term.

In the short term, however, the price of tortillas has reached 8 to 10 pesos (US$0.72 to US$0.91) per kilogram at many locations and is projected to soar to 15 pesos (US$1.36) by March. The average price of tortillas was 6 pesos (US$0.54) per kg a year ago. Corn prices in Mexico are responding to a sharp increase on the global market, a result in large part of strong demand in the US by producers of ethanol fuel.

The average price of corn in the US, which has a strong influence on international prices, is expected to reach US$3.50 per bushel in 2007, compared with US$3.25 in 2006. Both of those prices are above the record of US$3.24 set in 1995, said Terry Francl, a senior economist for the American Farm Bureau Federation. "Pressures on agriculture prices due to high corn prices could continue in 2007," economist Benito Berber at HSBC in New York told Reuters.

The soaring cost of tortillas in Mexico late last year contributed significantly to the increase in the country's annual inflation rate to 4.05% in 2006, compared with the government's target of 3%, according to the Banco de Mexico (central bank). Annual inflation in 2005 reached 3.3%. Other factors driving inflation higher last year were higher energy prices and increases in the cost of eggs, chicken, and other foodstuffs.

Speculators partly responsible

Some industry sources say an increase in energy prices and price speculators in Mexico are just as responsible for the high cost of corn in Mexico as outside influences. Carlos Salazar, secretary of the Union Nacional de Productores de Maiz (UNPM), said he has heard of cases where intermediaries were acquiring corn from farmers at 2,000 pesos (US$182) per metric ton and reselling it at 3,800 pesos (US$346).

The Confederacion Nacional Campesina (CNC) has seen similar trends. "Many of our producers are marketing their corn at 1,450 pesos (US$132) per MT," said CNC leader Cruz Lopez Aguilar. "If you want to find those responsible for the high price of tortillas, look to the intermediaries." Lopez Aguilar also ascribed some responsibility to the government, which has failed to control increases.
in the price of fuel and electricity, forcing producers to ask higher prices for their corn to make ends meet.

Some industry officials agree that the tortilla market has become distorted. "We agree that there is a shortage of corn, but a price of 10 pesos per kg for tortillas is exaggerated," said Rafael Ortega, president of the Camara Nacional de la Industria de Produccion de Masa y Tortilla (CNIPMT).

**Government to expedite imports, boost production**

By expediting imports of corn, primarily from the US, the Calderon administration is hoping to boost domestic supplies in the medium term. Imports account for more than one-fourth of the 32 million MT of corn consumed in Mexico. The UNPM and other organizations said the strong competition for corn from US ethanol producers will greatly increase the cost and availability of imports, which makes it incumbent on the administration to place a higher emphasis on production.


Suarez urged the government to put the majority of its efforts in boosting domestic production. But he raised concerns that weather conditions could thwart the government’s strategy to increase Mexican corn output. "The El Nino weather phenomenon is projected to result in higher-than-normal temperatures and drought in some parts of Mexico this year," he said.

Another strategy by the Calderon administration to help bring prices down is an arrangement made by the consumer-protection agency (Procuraduría Federal de Proteccion al Consumidor, PROFECO) with major retailers to set a ceiling of 6.50 pesos (US$0.59) on the price of tortillas sold at their stores. "The agreement means government policy is encouraging Mexicans to purchase a staple thousands of years old at Wal-Marts rather than traditional outlets," said Kelly Arthur Garrett, a columnist for the Mexico City English-language daily newspaper The Herald. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 10, reported at 10.96 pesos per US$1.00] (Sources: Reuters, Agencia de noticias Proceso, 01/09/07; La Cronica de Hoy, Notimex, Reforma, La Jornada, Milenio Diario, El Economista, El Universal, The Herald-Mexico City, Excelsior, 01/09/07, 01/10/07; El Financiero, 01/10/07)