

4-18-2007

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## Recommended Citation

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## **Government Unsure if Tortilla Price-Control Agreement will be Extended**

*by LADB Staff*

*Category/Department: Mexico*

*Published: 2007-04-18*

President Felipe Calderon's administration is trying to keep the price of tortillas stable, but it is uncertain whether the administration will push for an extension of a price-control agreement with the private sector beyond its expiration date on April 30. Most corn millers, tortilla manufacturers, and agriculture organizations have already announced they oppose extending the agreement, which was put in place in early January in response to a substantial increase in tortilla prices in Mexico (see SourceMex, 2007-01-10).

Under the accord, tortilla manufacturers agreed to the government's recommendation that they set a ceiling of about 8.50 pesos (US\$0.77) per kg. But critics contend that the agreement has had mixed results because the price ceiling was not mandatory (see SourceMex, 2007-01-31).

A survey by the Secretaria de Economia (SE) found prices above the 8.50-peso target in tortillerias in 15 states as of early April. Prices were as high as 11.80 pesos (US\$1.07) in Mexicali in Baja California state and 11.25 pesos (US\$1.02) in Hermosillo in Sonora state. Prices also increased slightly in grocery stores to an average of 5.75 pesos (US\$0.52) per kg, even though retailers had committed to keep prices at 5.50 pesos (US\$0.50).

Two weeks before the expiration of the pact, Economy Secretary Eduardo Sojo was noncommittal on whether the administration would push for an extension. Sojo promised, however, that the Calderon administration would take all steps necessary to ensure that tortilla prices remained at "acceptable levels." Sojo has been meeting with millers, retailers, and corn producers to discuss options to keep a lid on prices. There is a difference of opinion within the industry on extending the agreement.

The Camara Nacional de la Industria de Produccion de Masa y Tortilla (CNIPMT) is proposing to extend the agreement for 60 days. "The agreement has helped the small retailer stay afloat," said CNIPMT director Rafael Ortega. For example, he said, many consumers started to switch to other options when prices reached 10 pesos (US\$0.90) per kg. "A construction worker who was used to buying a kilo of tortillas during his lunch hour was switching to instant soups," said Ortega.

### ***Bumper corn crop could make accord unnecessary***

A spokesperson for Cargill de Mexico said the company does not see any need for the agreement to remain in place. Laura Tamayo, the company's director of public affairs, said the market conditions have stabilized sufficiently in Mexico to eliminate the need for a price agreement. "We no longer have the problem of tight supplies and high prices," said Tamayo. "According to the market, prices should not increase." Industry sources note that the Mexican government's decision to increase imports of duty-free corn from the US and other countries has helped boost supplies of corn sufficiently in the near term to keep prices from increasing further.

Tamayo also pointed to forecasts of a bumper crop of white corn in Sinaloa this season, which is expected to reach 5 million metric tons. "With the Sinaloa crop, Mexico could have enough supply for six months," said Tamayo. Sinaloa accounts for 85% of the spring-summer crop, with harvest scheduled to begin in May. Initial projections are that yields in Sinaloa will surpass 4 MT per hectare, which is "sufficient to ease pressure on the market," said a recent report from Grupo Banamex.

Administration officials agree that the Sinaloa harvest will help the market situation considerably. "We will have a large supply at low prices...and because of this we anticipate that the price of tortillas will at least remain at current levels or even decline," Agriculture Secretary Alberto Cardenas said in mid-April.

Industry sources also agree that prices will probably not increase significantly in the near term. Most respondents to a survey by the Mexico City daily newspaper El Universal among retailers in the Mexican capital and surrounding areas said they felt that tortilla prices had stabilized but would not decline to the level they were a couple of years ago.

Still, the CNIPMT justified the need to keep prices at current levels, given increasing costs of production. "The cost of natural gas has risen by 14% during the past year, while the price of machinery is up about 20%," said Ortega. Farm groups, private sector call for longer-term strategy. Several agricultural organizations agreed that the supply of corn would be large enough to preclude an extension of the agreement, at least for most of 2007.

In a statement, the Congreso Agrario Permanente (CAP), the Central Campesina Cardenista (CCC), and the Union Nacional de Organizaciones Regionales Campesinas Autonomas (UNORCA) urged the Calderon government to control price speculation and to channel its efforts to improving the long-term prospects for the Mexican agriculture sector.

"The price of white corn has reached its true market price of more than 3,000 pesos (US\$272) per MT," said CAP coordinator Gerardo Sanchez. "It is up to the government now to stimulate production through an improved subsidy program."

The Centro de Estudios Economicos del Sector Privado (CEESP) also urged the Calderon administration to take steps to make the agriculture sector more competitive through increased production and higher earnings for farmers. The CEEESP says that Mexico's production levels have not kept up with increased demand for corn, not only for the production of tortillas but also for other products that depend on the grain.

An increase in purchasing power for a segment of the population has translated to a growing demand for meat, eggs, and other food items that require corn, said the CEEESP. Under current conditions, the only alternative is for Mexico to acquire corn from overseas. "We are increasingly dependent on imports from the US," said the CEEESP. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 18, reported at 10.99 pesos per US\$1.00]

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