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Opinions Mixed on Pending Elimination of Corn Tariffs Under NAFTA

by LADB Staff
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Mexican agricultural organizations have mixed opinions on whether the elimination of import tariffs on corn from the US under the North American Free Trade Agreement (NAFTA), effective Jan. 1, 2008, will have as negative an impact on the domestic market as originally feared. For some, the outlook has changed because strong demand for corn in the US market reduces the chances of a major influx of that commodity into Mexico.

Still, other groups are concerned that there will be enough of an increase to harm some corn growers, particularly the small-scale producers. At issue is not only the impact on domestic prices but also the loss of Mexico's ability to control its food policies. And corn is not the only product affected by the elimination of NAFTA tariffs. Imports of beans, powdered milk, and sugar will also be impacted.

Strong US demand to limit corn shipped to Mexico

Some organizations such as the Confederacion de Productores Agricolas de Maiz de Mexico (CNPAMM) said the outlook has changed for many corn producers in Mexico, which had raised concerns two years ago about an expected surge in corn imports at the start of 2008. Now, however, much of the yellow corn being grown in the US is going toward the production of fuel ethanol (see SourceMex, 2007-01-10).

"There is an increase in demand for yellow corn in the US domestic market because of the push for increased ethanol production," said CNPAMM president Efrain Garcia. "Therefore, we don't expect the elimination of tariffs to result in any major increases in imports."

Conversely, Garcia said, the situation for the livestock industry and poultry sector and industries that rely on corn, such as starch manufacturers, which had expected to benefit from the increase in supplies, may not be so favorable. "These industries may have a difficult time finding adequate supplies of yellow corn from US sources," said the CNPAMM president. Supplies of domestically produced yellow corn could also become tight, since President Felipe Calderon and the Mexican Congress have committed to increasing ethanol production at home, although there are efforts to reduce the amount of corn that will be used for the fuel additive (see SourceMex, 2007-06-06 and 2007-09-05).

Former Mexican trade official Luis de la Calle, who helped negotiate NAFTA, also downplayed the significance of the tariff elimination in light of the reduced imports from the US. He called on the Calderon administration to promote domestic production to meet the growing demand in Mexico. "We now have a domestic market of about 28 million metric tons," said de la Calle. "We should raise that amount to 45 million MT, giving us the possibility of expanding our pork and poultry industries and creating about 1 million jobs," he said in an interview.
Small-scale farmers remain a concern

But the pending opening of the market worries other corn growers, particularly small farmers. The primary concern is that the imported corn could undermine prices in the Mexican market. Even though the majority of the US corn coming into the country would be the yellow variety used for feed and industrial purposes, an increased supply would affect the price of the white corn grown by most small farmers. White corn is the primary ingredient used in tortillas and other typical Mexican foods like tamales.

The campesino organization Unidad de la Fuerza Indigena y Campesina (UFIC) said that 3.5 million subsistence farmers could be left unprotected from the effect of imports. "We must protect the more needy farmers," said UFIC president Isidro Pedraza Chavez, who also represents the center-left Partido de la Revolucion Democratica (PRD) in the Chamber of Deputies. Deputy Hector Padilla, who chairs the agriculture committee (Comision de Agricultura y Ganaderia) in the lower house, also questioned the impact of increased imports of corn and beans on smaller producers, who will become less competitive.

Small growers account for 95% of all farmers in Mexico, he noted. "These are the very Mexican citizens who provide food for our population," said Padilla, a member of the opposition Partido Revolucionario Institucional (PRI). Padilla called on the Calderon administration to push for revisions to the NAFTA agriculture sector that would reduce the exposure of small-scale producers.

The PRI legislator also called for policies to help strengthen agriculture production in many smaller communities, which in the end could reduce the need for people to emigrate to the US and to Mexican cities. "We need to help small-scale growers become more productive," said Padilla. A number of campesino organizations want to give their concerns greater public exposure.

In early December, members of three groups the Consejo Nacional de Organizaciones Campesinas (CONOC), la Alianza Nacional de Productores Agropecuarios y Pesqueros-El Barzon, and the Coordinadora Nacional Plan de Ayala (CNPA) began a fast in front of Mexico City's El Angel de la Independencia statue, a prominent gathering place.

Beyond the impact on small-scale producers, organizers of the fast said that Mexican agriculture policy could become even more dependent on the US. The hidden cost of the liberalization of Mexico's agriculture sector, said Victor Suarez Carrera, director of the Asociacion Nacional de Empresas Comercializadoras de Productores del Campo (ANEC), is that Mexico is giving up control of its policies. "Mexico is becoming dependent on imports from the US and on a commercial system controlled by a few multinational companies," said the ANEC official.

Critics argue that changes in Mexico's corn distribution and processing chain, which were implemented along with NAFTA, have contributed to the uncertain situation for small farmers. Among these was the dismantling of the state-run foodstuffs company (Compania Nacional de Subsistencias Populares, CONASUPO), which for decades played a key role in regulating domestic markets by storing, importing, and distributing grain. In 1998, large companies like Grupo Industrial Maseca (GRUMA), Grupo Minsa, and Cargill assumed some of CONASUPO's functions.
but also left many farmers at the mercy of supply and demand (see SourceMex, 1999-02-10). "Dismantling CONASUPO was a critical step in privatizing the corn-tortilla market," said columnist Luis Hernandez Navarro in the Mexico City daily newspaper La Jornada. "Other steps taken by the government to that end were liberalizing the price of corn in 1999 and dissolving FIDELIST (Fideicomiso para la Liquidacion al Subsidio de la Tortilla), a corn-based subsistence program that fed 1.2 million families in marginalized urban areas."

**Grupo Maseca to promote local production**

The pending liberalization of the corn market under NAFTA has also forced some processors to become more efficient. In early December, GRUMA, the world's largest manufacturer of corn meal, took steps to reduce its operating costs while at the same time helping corn farmers in some parts of Mexico. GRUMA signed an agreement with CNPAMM in which the company pledged to consider purchasing more white corn from farmers within a 100-km radius of its 18 processing plants. The agreement includes a feasibility study, which could cost about 1.6 million pesos (US$147,000), to determine the areas near the plants where it is viable to boost corn production.

The plants are scattered throughout the country, from Yucatan and Chiapas in the south, to Mexico state and Guanajuato in the center, to Jalisco, Nayarit and Sinaloa in the west, Baja California and Sonora in the northwest, and Tamaulipas in the northeast. At present GRUMA acquires about 40% of its corn directly from producers and 60% from intermediaries.

By purchasing corn from sources closer to the plants, the company expects to reduce transportation costs, which now run about 350 pesos (US$32) per MT. "We have to maintain efficiency and profitability in the marketing chain and reduce costs of production," said GRUMA director general Roberto Gonzalez Alcala. "We are conducting the study to determine whether we can buy more of our corn near the plants, thus saving 50% on transportation costs."

One concern is that some producers might switch to growing yellow corn because of its profitability, thus reducing the supply of white corn used to manufacture tortillas. By encouraging the production of white corn, GRUMA hopes that it can help ensure that more farmers have a profitable alternative to yellow corn. In some areas, some farmers are already considering changing to yellow corn, even turning to genetically modified organisms (GMO) to boost yields. In Chihuahua, several farmers have planted GM corn even though the federal government has yet to allow altered varieties in Mexico (see SourceMex, 2006-10-25 and 2007-01-31), said the Mexico City daily newspaper Excelsior. Several indigenous rights groups and environmental organizations have come out strongly in opposition to GM corn (see SourceMex, 2002-05-08 and 2004-09-22).

**Tortilla consumption continues to decline**

In addition to its efforts to make its production more efficient, GRUMA also faces the task of maintaining and expanding its domestic market. In early December, the company released statistics indicating that tortilla consumption in Mexico has declined significantly during the past seven years, in part because of a change in the eating habits of Mexicans. Mexicans consume about 70 kg of tortillas per capita, compared with about 90 kg in 2000. Consumption declined by 15% between 2000 and 2004, the Camara Nacional de la Industria de la Masa y Tortilla, CNIMPT) reported three years ago (see SourceMex, 2004-06-23).
GRUMA said one factor in the reduced consumption is the migration of many rural residents to the cities, where they have a more varied choice of foods such as bread. "We have to make tortillas more competitive versus other similar foods," said Gonzalez. "We have to look for alternatives to maintain this product at the top of preferences for consumers."

Consumption has also been affected by the increase in the costs of tortillas and corn meal in the past 18 months, which is directly linked to the high cost of corn in the US (see SourceMex, 2007-01-10). The higher prices forced the Calderon administration to negotiate an agreement with retailers to set a ceiling of 8.50 pesos (US$0.78) per kg through the middle of the year (see SourceMex, 2007-01-31, 2007-04-18).

In August, Economy Secretary Eduardo Sojo announced that the agreement had been extended through the end of 2007. There is concern, however, that inflationary pressures, tied in part to the new taxes on gasoline and on corporations (Impuesto Empresarial a Tasa Unica, IETU), will cause tortilla prices to rise in 2008. The two taxes were part of the tax-reform package approved by Congress in September (see SourceMex, 2007-09-19).

Some private entities like GRUMA do not expect the cost of tortillas to rise in 2008. "The price will remain below 8.50 pesos (US$0.78) per kg," said Gonzalez Alcala. But others are not so certain that prices will remain stable, given the increasing cost of fuel and other inputs required to produce tortillas.

Aida Palafox Fuentes, director of the Camara Regional de Productores de Tortilla, said tortilla manufacturers in her area, which includes the states of Veracruz, Puebla, and Tlaxcala, will try to keep prices from rising above 9.50 pesos (US$0.87) in the near term, but she said prices could increase after January 2008. "We may see costs increase to 12 pesos (US$1.10) or 15 pesos (US$1.38)," she said. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 12, reported at 10.84 pesos per US$1.00.]

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