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Calderon Administration Urged to Take Emergency Steps to Avoid Food Crisis

by LADB Staff
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The Mexican Congress, the academic community, and agriculture organizations are appealing to President Felipe Calderon's administration to create a special grain reserve and take other measures to help the country weather the effects of a global food crisis. Many experts agree that Mexico has not suffered as much as other countries but acknowledge that the country remains very vulnerable to food shortages.

There have already been some signs of trouble. For the last two years, the rising cost of tortillas had been associated with a possible increase in food insecurity. Now other basic products like bread and fruits and vegetables are becoming increasingly more costly, escalating the pressure for the administration to implement emergency measures.

Prices for basic goods increasing

A sharp rise in commodity prices, poor harvests in some parts of the world, and high transportation costs have created food shortages in many countries, affecting at least 100 million people, said the Food and Agriculture Organization (FAO). One of the countries most affected in the Americas is Haiti, where major protests from hungry citizens resulted in the ouster of Prime Minister Jacques Edouard Alexis (see NotiCen, 2008-04-10 and 2008-04-17). The situation is not as dire in Mexico as it is in Haiti or other countries, but there is some cause for alarm because of recent increases in the price of many basic goods.

At one time the concern centered on price increases for tortillas (see SourceMex, 2007-01-31, 2007-04-08 and 2008-04-16), but now the cost of other products is increasing. For example, the price of the popular bolillo roll, which is sold in bakeries throughout Mexico, has increased between 30% and 50% in the Mexican capital this year. "Specialists say this is just the tip of the iceberg for price increases expected in the next few months," said the Mexico City daily newspaper El Sol de Mexico.

Economy Secretary Eduardo Sojo acknowledged that bread prices have risen since December, reaching about 1.51 pesos (US$0.14) per unit, compared with 1.40 pesos (US$0.13) at the end of last year. He also recognized that the price of milk, pork, and chicken had increased and said that the government is keeping a close eye on the market.

Administration urged to create strategic food reserve

The possibility of a crisis is creating strong concern in Congress, prompting members of the two largest opposition parties, the Partido Revolucionario Institucional (PRI) and the Partido de la Revolucion Democratica (PRD), to demand that Calderon implement emergency measures, starting with creating a grain and food reserve. The PRD delegation in the Chamber of Deputies proposed that such a reserve contain commodities such as corn, rice, beans, and wheat. "We are not prepared [for an emergency]," said Deputy Javier Gonzalez Garza, PRD floor leader in the lower house.
Some private organizations, such as the Asociacion Nacional de Empresas Comercializadoras de Productores del Campo (ANEC), also support creating a reserve. Sojo said the Secretaria de Economia (SE) and the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA) are studying very closely the possibility of creating such a reserve. "We're also viewing it as an instrument to control speculators," said the economy secretary.

The PRD and ANEC agreed with Sojo that controlling speculators would help hold down prices somewhat. "We could find ourselves at a disadvantage because of the speculation in international markets," said Gonzalez Garza. "But in Mexico we also have many speculators who have absolutely no scruples."

"We urge the president and the Congress to put in place a mechanism to manage imports and exports of white corn and beans and to work vigorously against the monopoly [that controls agricultural markets]," said ANEC. "This is the only way we can control the practices of the food-industry companies."

Agriculture Secretary Alberto Cardenas took a broader view, blaming international speculators for the rise in food prices. "Just looking at the numbers for global grain production, world inventories, and forecasts for future consumption, there should be no reason for increases ranging from US$40 to US$80 per ton for a single commodity," said Cardenas. "All this demonstrates is that there is someone out there making a quick profit."

**Mexico vulnerable because of dependence on imports**

In the Senate, Heladio Ramirez of the PRI also called on Calderon to take action to stop the accelerated increase in prices of agricultural products and to inform Mexicans about what steps he will be taking to minimize the impact of the crisis on Mexico. Ramirez, who chairs the rural development committee (Comision de Desarrollo Rural) in the upper house, said Mexico is particularly vulnerable to increases in costs of a number of consumer products, including, corn, soybeans, oils, eggs, flour, milk, and poultry.

"We are a country that depends on the changes in the world markets," said Ramirez, who is also president of the Confederacion Nacional Campesina (CNC). "We import one-third of the yellow corn, 95% of the soybeans, 70% of the rice, 65% of the wheat used for bread, 30% of sorghum used for livestock feed, and a large percentage of our seeds and agricultural fertilizers."

A recent report from the Banco de Mexico supports Ramirez's concern. The central bank said the sustained increase in international prices for 127 food products and agricultural inputs has cost Mexico almost US$12.9 billion in the past year. "To put the figure into perspective, this amount is about US$5 billion higher than it was in 2005," the Mexico City daily newspaper La Jornada said in an editorial. The newspaper noted that the central bank uses that year as a reference because it was the last year that prices showed some stability.

The total cost of food in the past year, noted La Jornada, is far above the US$4.45 billion that Mexico earned from oil exports during the same period. "Mexico finds itself in a difficult situation because
of its deficit in food production, which forces us to import 20 million tons annually," said Jaime
Yezaki, president of the Consejo Nacional Agropecuario (CAN). The reliance on imports, he added,
epecially hurts the livestock and poultry industries.

Legislators from Calderon's governing Partido Accion Nacional (PAN) also urged the president to
enact emergency measures. "We have to take action through direct supports and subsidies for the
most needy families to compensate for the increases in the cost of basic products," said PAN Sen.
Gustavo Madero Munoz, who chairs the finance committee (Comision de Hacienda) in the upper
house.

Economists at the Universidad Nacional Autonoma de Mexico (UNAM) and the Escuela Bancaria
Comercial (EBC) echoed this concern, saying Mexico's strong dependence on corn means that a
shortage will primarily affect 14 million low-income workers who live in urban areas. A recent
study by the Instituto de Investigaciones Economicas (IEE) at UNAM showed that the current
crisis worsens an already bad situation for low-income families, which have greatly reduced their
consumption of products such as meat, eggs, milk, grains, and fruits and vegetables because of the
increasing costs of these products.

In response to these concerns, the state-run food company Distribuidora Conasupo (DICONSA), a
government-private partnership that sells commodities like corn, beans, flour, and powdered milk
to the poorest segments of the population, said it has received a budget of 2.3 billion pesos (US$210
million) this year, allowing it to increase its purchases of grain and other basic products to ensure
adequate supplies for the rest of the year. Food wholesalers, represented by the Confederacion
Nacional de Comerciantes de Centrales de Abasto (CONACCA), are planning to do their part to
help avert a crisis.

CONACCA president Alfredo Neme Martinez said a new program that will ultimately reduce the
cost of food for consumers should be in place by the middle of 2008. But he also said, "It is important
for the government to take action to ensure that the 18 million Mexicans who live in extreme poverty
have access to food."

Food sovereignty an issue during May Day celebration

Ramirez and the CNC, which represents about 5 million agricultural producers, also made security
and food sovereignty part of the agenda during the huge commemoration of International Workers
Day in Mexico City on May 1 Among their demands was a renegotiation of some of the agriculture
provisions of the North American Free Trade Agreement (NAFTA), which they say has prevented
Mexico from producing sufficient food at home, having instead to rely extensively on imports.

La Jornada offered a similar opinion. "In the case of Mexico, the demands of the free market have
led successive governments to adopt erratic agriculture polices, based on a model of comparative
advantages," the newspaper said in its editorial. "Such a model has forced us to surrender our food
sovereignty and to become dependent on the importation of certain products. " ANEC also cited
NAFTA for creating dependency on imports. The organization said that imports between 1994 and
2007 increased by 440% for beef, 280% for poultry, 210% for pork, 50% for eggs, 85% for corn, and
44% for sorghum.
Other agricultural organizations have also called for urgent action from the administration. In a statement, the Confederacion Revolucionaria de Obreros y Campesinos (CROC) urged the government and food companies to "to do their job and develop plans to ensure that Mexico has an ample supply of food."

Private analysts are also urging the government to make changes to its agricultural policies, although their proposals differ somewhat from the agricultural organizations. For example, Rafael Camarena, deputy director of economic analysis for Banco Santander in Mexico City, said the government should take a long-term approach and enact policies that will boost efficiency in Mexican agricultural production, including increasing financing and subsidies.

Camarena said, however, that agricultural organizations and cooperatives should also be involved in this process. "The funding can be distributed more efficiently through these organizations," he said. Officials from the FAO and World Bank also suggested that Mexico take steps to improve its production process. In an interview with the Mexico City daily newspaper Reforma, they projected that high commodity prices would remain at 50% above the 2004 levels at least through 2010. "Mexico will have to increase production and also strengthen programs that benefit society, such as child nutrition," said FAO analyst Lilliana Balbi.

Armando Batra, a researcher at the Universidad Autonoma Metropolitana (UAM) in Mexico City, accused the Calderon government of adopting the "policies of an ostrich" by not becoming more proactive in helping protect Mexico. "[The administration] is saying that the crisis is not going to affect Mexico as much as it is other countries," Batra said at an agriculture conference in Mexico City.

Administration officials have indeed downplayed the possibility of a food crisis. Speaking to reporters, Agriculture Secretary Cardenas said Mexico still expects to meet its goal to produce 195 million tons of foodstuffs and its target of US$16 billion in agricultural exports this year. "This would guarantee that we have a sufficiently large food supply," he said. Still, he acknowledged the concerns about shortages. "No country in the world is 100% safe [from the crisis], but our agricultural sector is working hard to ensure that we have enough supply."

The administration's lax attitude has angered some agricultural groups. "While other large producing countries are trying to protect their citizens, President Calderon is exposing Mexicans, in an irrational and unnecessary manner, to the fluctuations of the market," said CNC leader Cruz Lopez. "This is not acceptable."

Administration rules out export controls

The concerns about a potential shortage have led to suggestions that Mexico consider enacting some export controls to ensure adequate domestic supplies. Critics, including World Bank president Robert Zoellick, countered that such controls would actually worsen the problem because they would take supply out of the global market, forcing prices even higher.

Jose Angel Gurria Trevino, a Mexican national who is secretary-general of the Organization for Economic Co-operation and Development (OECD), also supports the free-market approach.
In an interview in a German newspaper, Gurria, who served as finance secretary during the administration of former President Ernesto Zedillo, recommended that governments further liberalize agricultural imports to allow greater supply into the country, which would tend to lower prices. He suggested that a 50% reduction in tariffs and other trade-distorting barriers could generate an additional US$44 billion for global agricultural economies.

Similarly, Guillermo Ortiz Martinez, chief governor of the Banco de Mexico, came out against any controls, especially for fruits and vegetables, as some have suggested. "Mexico would make a serious mistake if it restricted exports in any form," said Ortiz. He pointed out that Mexico should continue to exploit its comparative advantage as a net exporter of these products, which help earn foreign exchange for the country.

Export controls have been one of the factors contributing to the recent surge in the price of rice on world markets since the beginning of 2008. Many major rice-producing countries, most of them in Asia, implemented the export controls because of concerns about rising prices and growing fear that the commodity would become scarce. As a result, the price of rice has increased even further, almost doubling on international markets since January.

Although rice is not as important a staple in Mexican diets as corn, Mexican consumers are still affected by the sharp increase at the global level. The retail cost of rice was 15.50 pesos (US$1.46) per kg at the end of April, compared with 11.50 per kg (US$1.08) in January. Mexicans consume about 5.2 kg of rice per capita annually, compared with 50 kg per capita in countries like Costa Rica and Cuba, said the Mexico City daily newspaper Milenio Diario.

The increase in rice prices prompted the Calderon government to announce a temporary increase in the import quota for this commodity. Imports account for about 25% of the rice consumed in Mexico. Some industry sources expect the price of rice in Mexico to stabilize by August. "We will see lower costs when the harvests start to come in," said Antonio de Alba, a spokesperson at Arrocera Covadonga. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 7, 2008, reported at 10.55 pesos per US$1.00]

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