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Mexican Tortilla Industry Attempting To Weather Crisis

by LADB Staff

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Mexico's tortilla industry is suffering a major economic crisis, as the bankruptcy of many small and medium-sized millers has unleashed a chain reaction that has made the popular food staple more expensive for most consumers. Miller organizations such as the Union Nacional de Industriales de Molinos y Tortillerias (UNIMT) and the Asociacion de los Industriales de la Masa y la Tortilla (AIMT) report that a large percentage of smaller tortilla-milling and retail operations have had to cease operations because of the increasing cost of raw materials, including white corn. The situation is squeezing Mexican consumers, who are not only finding fewer outlets to acquire tortillas but are also having to pay higher prices.

Many small-scale operations going out of business

The crisis facing tortilla retailers was already evident last year. In a report published in late 2008, the UNIMT said 15% of tortilla millers in Mexico, primarily small and medium-sized operations, had to close between March and October of last year because of financial difficulties. The trend has continued this year, with many communities reporting the loss of tortilla millers. In the northern state of Tamaulipas, for example, more than 200 tortilla-related establishments have closed since January, resulting in the loss of 500 jobs. In neighboring Coahuila state, industry officials report that 16 tortilla millers in the city of Monclova ceased operations between the end of last year and the middle of May. AIMT president Fernando Isas Martinez attributed the crisis to a combination of factors, including higher costs for utilities and increased prices for raw materials.

The high cost of a sack of corn meal comes on top of rising prices for transportation, electricity, water, and gas, increasing our production costs, said Isas Martinez. Some millers say they continue to hang by a thread waiting for conditions to improve. Many have increased prices slightly but are concerned that they will have to charge more to cover the higher costs. Rodrigo Davila, who owns a tortilla-milling operation in Morelos state, said the high cost of corn, which is now about 3,500 pesos (US\$264) per ton, could leave millers in his state with no choice but to charge more for their product. "It would be the last straw for the consumer [if prices were to rise significantly]," Davila told the daily newspaper El Sol de Cuautla.

For many years, tortilla millers were a reliable job source in many communities, but that is no longer the case. "Many more [of these operations] are going to go broke," said Isas Martinez. UNIMT officials agreed that an extended crisis could cost jobs. "If we continue to suffer through price adjustments, we might be forced to lay off our employees, and we don't want to do that," said UNIMT secretary Raul Moreno Ruiz. "These layoffs could affect hundreds of families."

Industry, government propose creative solutions

The crisis for tortilla manufacturers has forced industry, labor unions, and state and federal governments to search for creative solutions to keep the small-scale operations afloat. In February of this year, the Confederacion Nacional de Productores Agricolas de Maiz de Mexico (CNPAMM) entered into an agreement with an affiliate union of the Confederacion Revolucionaria de Obreros y Campesinos (CROC) to broaden the scope of thousands of corn-milling and tortilla outlets by converting them into food stores.

In the first phase, as many as 10,000 tortilla outlets throughout the country will be upgraded to convenience stores and will offer basic products such as beans, rice, sugar, and coffee at a discount of as much as 40%. The plan not only helps keep the tortilla operations afloat but also provides foodstuffs at reduced costs to low-income populations. In a separate effort, federal authorities have launched a pilot project in five states to help finance the modernization of tortilla operations. Under the Programa de Modernizacion de la Industria de la Tortilla (Mi Tortilla), small-scale manufacturers will receive special assistance from the federal government.

The program will be supported by two agencies, small-business lender Nacional Financiera (NAFINSA) and Fideicomiso para Ahorro de Energia (FIDA). The latter agency was created to certify energy-saving capabilities of tortilla-producing units around the country. Program director Merisia Herrera said the effort is targeted at small businesses with no more than 10 employees. Some states like Michoacan are partnering with the federal government to provide special assistance to tortilla manufacturers and in the process help consumers. In early May, state authorities announced a plan to provide subsidies of between 50 and 60 centavos (US\$0.03 and US\$0.04) per kg to small-scale tortilla operations. Fernando Zarate Hernandez, a local delegate for the Camara Nacional de la Industria de la Masa y de la Tortilla, said the subsidy will help keep tortilla prices in the state at about 10 pesos (US\$0.75) per kg for the rest of 2009.

Higher prices for consumers

Despite the best efforts of some in the industry to keep prices down, tortilla prices have increased in many places. UNMIT official Lorenzo Mejia said prices have risen between 2.50 pesos (US\$0.18) and 4.50 pesos (US\$0.34) per kg, depending on the region. Consumers around the country are now paying between 10 pesos (US\$0.75) and 12 pesos (US\$0.90) per kg, compared with 8.50 pesos (US\$0.64) just a year ago, when an agreement between the government and the private sector was in place (see SourceMex, 2008-04-16). The agreement was implemented because of the surge in the price of corn and other commodities across the board in late 2006 and early 2007 (see SourceMex, 2007-01-10).

The latest increase comes when many Mexicans are struggling because of the economic crisis. Mejia said the crisis has reduced the purchasing power of the population alarmingly, forcing many consumers to buy tortillas by the peso rather than the traditional purchase per kilo. He estimates daily per capita tortilla consumption will reach about 180 to 190 grams this year, down from 275 grams in 2000. Mejia said the tortilla industry has urged the federal government to change the manner in which subsidies are provided. Instead of supporting the productive sector, he said, the government should channel funds directly to consumers through a "tortilla bond" administered either by the Secretaria de Desarrollo Social (SEDESOL) or the Sistema Nacional para el Desarrollo Integral de la Familia (DIF). "During a time of crisis, this would allow consumers to receive 1 kg

of tortillas free," said Mejia. Tortilla manufacturers are also asking President Felipe Calderon to broker another agreement among all sectors of the tortilla chain to stabilize prices. An agreement could help the parties resolve some of the market factors that make the product more expensive. For example, said Moreno Ruiz, some millers pay for raw materials in dollars, which increases the cost of the final product. "We do not want to raise the price of [tortillas] or hurt the consumer," said Moreno Ruiz. "But we don't have an alternative."

Corn production in deficit

Several analysts say the same problem that caused the food-price crisis in 2006 and 2007 lurks in the background. Mexico's production system remains extremely vulnerable to the global market, resulting in higher prices for corn. Some experts like Margarita Tadeo, a member of the Facultad de Estudios Superiores (FES) Cuautitlan, said the problem lies partly in Mexico's inability to grow sufficient white corn to meet its domestic needs. She said Mexico produces only about 21 million tons of corn each year, when it has the potential to produce as much as 28 million tons. Tadeo suggested the situation could be changed using different cultivation methods, which could raise yields. Under current practices, the 15% of Mexico's corn crop that is irrigated produces yields of 9 tons per hectare.

In contrast, the 85% grown on nonirrigated land, mostly in small parcels, yields 2.9 tons per ha. The FES researcher agrees that high demand for yellow corn, particularly from the US, continues to drive the price of all corn. But she pointed out that only 7% of Mexico's corn production is the yellow variety used in ethanol production. Therefore, Mexico could go a long way toward meeting its domestic food needs if more white corn was grown at home. But other factors have affected the availability of corn in the domestic market. For example, the daily newspaper *El Informador*, which covers western Mexico, recently reported that agriculture producers in Sinaloa state produce about 5 million tons of white corn per year, which could meet a significant portion of the tortilla industry's needs. But they are only able to sell part of their production on the domestic market because of a lack of storage capacity in Mexico. One solution, said Alfonso Campos Encinas, director of the *Comite Estatal del Maiz* in Sinaloa, would be for the federal government to create a grain reserve, which would provide financing for warehouses. This plan has been floating around for several months (see *SourceMex*, 2008-05-07).

Campos Encinas said Mexican corn growers are affected by global trends in other ways. A decline in the Mexican peso versus the US dollar has made exports more attractive than the domestic market, which may be another factor behind tight domestic supplies. Still, any increase in revenue for Mexican producers is more than offset by higher costs for seeds, fertilizers, and other inputs, said Campos Encinas. While agriculture producers accuse the Calderon administration of failing to provide sufficient support to domestic production, there are also charges that the federal government has created opportunities for Mexican white corn to be sold on the global market when the country was facing a shortage at home.

In a report published in September 2008, the Mexico City daily newspaper *Excelsior* said more than 95 million pesos (US\$7.1 million) in subsidies were disbursed by the agency *Apoyos y Servicios a la Comercializacion Agropecuaria (ASERCA)* to four companies to export more than 250,000

tons of Mexican corn. The report said ASERCA, a unit of the Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (SAGARPA), provided subsidies ranging between 320 pesos (US\$24) and 400 pesos (US\$30) per ton to Cargill, Gradesa, Compania Nacional Almacenadora, and Comercializadora Profesional Mexicana, to ship corn to the US, Guatemala, El Salvador and Colombia. "The grain was shipped overseas when the impact of grain shortages and high food prices was being felt," said Excelsior. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 28, reported at 13.22 pesos per US\$1.00]

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