

10-13-2010

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Carlos Navarro

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Recommended Citation

Navarro, Carlos. "Mexico Concerned Spike in Wheat Prices Could Affect Domestic Food Costs." (2010).
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Mexico Concerned Spike in Wheat Prices Could Affect Domestic Food Costs

by Carlos Navarro

Category/Department: Agriculture and Fish

Published: Wednesday, October 13, 2010

As the global community prepares to observe the 30th anniversary of World Food Day on Oct. 16, food insecurity remains a huge concern in Mexico and other countries in Latin America. The concern is exacerbated by the global spike in wheat prices that followed a series of fires and severe drought in agricultural areas of Russia this summer. The situation forced Russia, one of the world's leading wheat producers, to ban exports of the grain and to consider imports. The situation unleashed wild speculation that led to a spike in wheat prices that affected many countries, including Mexico. Even though Mexico is primarily known for its consumption of corn and tortillas, the use of wheat products is extensive. The price of wheat has more than doubled in Mexico since mid-July, causing major increases in the cost of wheat flour. Despite the recent trends, the government is confident that Mexico can end what it calls "food poverty" by 2015.

Wheat flour costs up in Mexico, bread prices expected to follow

The crisis in Russia, and the rampant price speculation that followed in global commodities markets, had a major impact on the price of wheat flour in Mexico. The cost of a sack of wheat flour increased from about 210 pesos (US\$17) in July to about 260 pesos (US\$21) by August and remained constant at that level through September, said Leopoldo González, president of the Cámara Nacional de la Industria Panificadora (CANAINPA).

The high cost of raw materials at some point is going to force the baking industry to pass on the cost to the consumer. This had not happened as of September. Even though the consumer price index (Índice de Precios al Consumidor, IPC) was up 0.52% for the month, the cost of bread had not yet increased. The spike in the IPC was instead the result of higher prices for education and some agricultural products like tomatoes and eggs, said the Banco de México (Banxico).

CANAINPA said the combined increase in the cost of other raw materials like sugar and eggs, added to the higher price for wheat flour, will increase costs for baked goods in the near term.

Other observers agree that higher prices are inevitable for some popular items consumed by Mexicans, including the bolillo and telera rolls and the sweet breads popular in many bakeries. "The [price of] bolillos that Mexicans consume is going to increase, as will the cost of sweet breads, noodles, cookies, wheat tortillas, and packaged bread," columnist Luis Hernández Navarro said on Aug. 31 in the Mexico City daily newspaper La Jornada. "The price of wheat flour is already up 20%, and, in the middle of August, the cost of wheat had already increased by 50% relative to its price in June."

Alfredo Neme, president of the Confederación de Agrupaciones de Comerciantes de Centros de Abasto, predicts that the price of flour could increase by at least 50% in Mexico because of pressure from international markets. "The increase has been more than 20%, and this affects products like bread, whose ingredients typically are 40% to 50% wheat flour," said Neme. In the future, we could see price increases of 50% to 70%."

There have been few comments from the large bread manufacturers in Mexico, although Daniel Servitje, director of Grupo Bimbo, said in a public forum that his company is considering adjusting prices to reflect the trends in global markets. "Everything is going to depend on the behavior of the grain markets in the coming weeks and months," the Bimbo executive said.

The Mexican government has reassured consumers that there will not be a shortage of wheat supplies in the domestic market, which should keep prices stable. In a joint communiqué, the Secretaría de Economía (SE) and the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (SAGARPA) said the wheat supply in Mexico is guaranteed for at least one year because of adequate domestic inventories and agreements with the US and Canada to increase imports from those countries should any shortages develop.

In a meeting with the Cámara Nacional de la Industria Molinera de Trigo (CANIMOLT) in late August, Economy Secretary Bruno Ferrari and Agriculture Secretary Francisco Mayorga Castañeda pointed out that, despite the problems in Russia, wheat crops are in good shape in the US and Canada. Those two countries have been the principal suppliers of wheat to Mexico.

Nevertheless, Hernández Navarro criticized President Felipe Calderón's administration for downplaying the situation, especially given its experiences in 2008, when the price of corn meal surged because of global speculation even though there was an ample supply of corn at the global level. In the face of massive protests, Calderón was able to avert a crisis by entering into a series of price-control agreements with the business sector ([SourceMex, April 16, 2008](#)). The high cost of corn in 2008, which unleashed a global food crisis, was attributed in large measure to a surge in speculative and actual demand for corn resulting from a US decision to promote increased production of ethanol. Corn prices in July 2008 reached a high of US\$7.65 per bushel.

"True to its style, the federal government has underestimated the gravity of the problem. For it, this is just a small and inconsequential cold, given the high global supplies of grain," said the columnist. "It forgets that in 2008, the last time we experienced a crisis in food products, there was record [corn] production."

Hernández Navarro saved his strongest criticism for global price speculators and the market instruments that encourage such behavior. "Food commodities should remain outside the market instruments that promote speculation," said the columnist. "The nations of the world should be able to produce what their citizens require to meet nutritional needs."

Industry sources say other wheat-producing regions like Australia and Europe are also in good shape. "There are other regions of the world that have had good wheat harvests, and that is why global prices have not been worse," said Neme. "But we could experience serious problems if prices rise to levels that precipitated the food crisis of 2008 or if some global climate catastrophe puts strong pressure on prices."

The impact of global price increases on production in Mexico varies by commodity. While wheat is one of the commodities most in demand around the world, its production in Mexico is primarily commercial. In contrast, corn is grown by many Mexicans for their personal consumption.

At present, Mexico produces about 4 million tons of wheat on 700,000 hectares of irrigated land and 160,000 ha of dry land. Wheat is grown in 24 states, but primarily in Sonora, Baja California, and Guanajuato.

Mexico seeks to boost wheat production

The Mexican government and the Centro Internacional de Mejoramiento de Maíz y Trigo (CIMMYT) are working on separate plans to enhance the Mexican wheat industry, but critics say it is an uphill battle. "Even with the global price variation for wheat, cultivation of this crop in Mexico faces several obstacles, including an unstable price, a high production cost, and the strong control of production by intermediaries," said La Jornada.

Martín Martínez, an expert with the Integradora Agropecuaria del Bajío, said production costs are driven higher by the strong need for irrigation and because wheat typically requires multiple fertilizers.

But the government sees wheat as a viable option. Speaking at an international symposium on wheat in Mazatlán, Sinaloa state, deputy agriculture secretary Mariano Ruiz-Funes said the administration is working on a plan to bring producers and buyers together through a system of contracts that would cover 2 million tons of wheat per year. Under the program, the government would develop a system to provide loans and other financing to producers and also to promote the use of advanced irrigation methods and other technological advances to reduce production costs.

The CIMMYT is also working on technologies to help producers address irrigation concerns. The institute is working on developing varieties of wheat that require less water, particularly in dry regions like Guanajuato.

The concerns about wheat and flour prices are part of a larger conversation in Mexico dealing with food insecurity and what some politicians call "food poverty." For some, the solution is for Mexico to return to self-sufficiency in food production, which would leave the country less susceptible to price fluctuations in the global markets. "Mexico is a net importer of food, with 50% of its needs coming from overseas," wrote Carlos Vega, a columnist for La Jornada. "This problem of food security, which translates to a problem of national security, is being ignored by authorities."

One aspects of food insecurity that concerns Mexican legislators is the lack of affordable food for a large segment of the population. Politicians on occasion refer to this situation as food poverty.

The Chamber of Deputies took up the issue during analysis of President Calderón's State of the Nation annual report([SourceMex, Sept. 8, 2010](#)), which included testimony from various Cabinet secretaries on an aspect of the address. One of those summoned to testify to legislators was Social Development Secretary Heriberto Félix Guerra, who agreed that 43 million Mexicans are so poor that they lack access to adequate food. Guerra pointed out to legislators, however, that the current rate of food poverty, which affects slightly more than 18% of the country's population, has declined from about 37% in 1996.

Félix Guerra suggested that Mexico could eliminate food poverty by 2015, but this would require "a great alliance" involving all members of society. "We can reach this goal if society, the three levels of government, the private sector, the churches, and the Congress work together," said the secretary. He did not elaborate on any plans or proposals under consideration, but greater self-sufficiency in food production would have to be part of the equation. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 13, reported at 12.37 pesos per US\$1.00]

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