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Mexico Takes Steps to Reduce Impact of Possible Global Food Crisis in 2011

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The Mexican food industry, the Congress, and President Felipe Calderón's administration all acknowledge the possibility of another global food crisis in 2011, although opinions differ on whether Mexico would be ready for such a contingency. Two main issues are at play, one dealing with whether Mexico has an adequate supply of food to meet the needs of its population and the other whether increasing reliance on imports is threatening the country's food security. Critics argue that the two are not mutually exclusive and that Mexico should rely less on imports to reduce its vulnerability to global price fluctuations.

There are strong concerns that global food prices could increase significantly in 2011 because of reduced production and increased demand. The Food and Agriculture Organization (FAO) has forecast a decline of 1.4% in global production of all cereal grains—including rice, wheat, and corn—to about 2.23 billion metric tons. At the same time, demand is expected to grow by about 1.8% to 2.26 billion tons. As a result of the changes in supply and demand, global stockpiles are expected to tighten by 6% in the coming year, the FAO said in December 2010.

There are some parallels to 2007, when a surge in food prices caused hardships and increased hunger around the globe, especially in poor countries. In Mexico, the biggest impact was on the price of corn and tortillas, a common staple in the diet of most of the population (SourceMex, Jan. 10, 2007) and (Jan. 31, 2010). The government addressed the issue partly through an agreement with the tortilla industry to keep price increases at a minimum (SourceMex, April 14, 2007). In 2008, the government took additional steps to prevent a food crisis, including the creation of a special grain reserve.(SourceMex, May 7, 2008).

There are also some differences relative to 2007. For one, the price of corn and wheat is not at the record levels reached in 2007 and 2008. And grain harvests in sub-Saharan Africa, the region most prone to hunger, have improved significantly in the past year from levels three years ago, which has reduced pressure on local food supplies. But other commodities are causing a surge in global food prices, particularly sugar and meat.

Different factors are also driving the food crisis. While high fuel costs were the culprit in 2007 and 2008, the global economic crisis (which ironically brought fuel prices down) is a major factor. Josette Sheeran, who heads the World Food Program (WFP), said government revenues are becoming increasingly tight, and leaders are balancing budgets by eliminating or severely cutting back on subsidies for foods, such as bread, cooking oil, and other staples. This situation has raised the threat of food riots. "We're in an era where the world and nations ignore the food issue at their peril," said Sheeran.

A report from the US State Department said 60 riots between 2007 and 2009 were caused by a reaction to food shortages or price increases.

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Government buys corn futures to stabilize tortilla prices

In Mexico, increases in the cost of tortillas resulted in street protests around the country in 2007. While the government and the food industry were able to agree on price controls, the Calderón government is making every effort to ensure that the situation is not repeated. In December, Economy Secretary Bruno Ferrari announced that the government had purchased corn contracts on the futures market to lock in a price through July-September of 2011. "We have guaranteed prices and guaranteed supply [of corn] to meet our needs through the third quarter of next year," Ferrari said in December.

The government's action was partly a response to potential price volatility, especially in light of efforts from the Unión Nacional de Industriales de Molinos y Tortillerías (UNIMTAC) and other members of the corn-milling industry to boost prices. In mid-December, UNIMTAC president Lorenzo Mejía hinted that tortilla prices could increase by 50%. This prompted an immediate response from the government, which sent agents from the consumer protection agency (Procuraduría Federal del Consumidor, PROFECO) and the Secretaria de Economía (SE) to conduct surprise inspections of retail locations to prevent the tortilla industry from engaging in what it deemed price speculation.

The SE said the inspections succeeded in bringing prices down, although some tortilla retailers initially defied the government decree. "At first, we saw an increase in the price of tortillas, but then they were lowered in response to some of the inspections that we conducted along with PROFECO," said the SE.

Even with the crackdown on speculation, Ferrari recognized that the average price of tortillas increased by about 16 centavos (US$0.01) between mid-December and mid-January to about 10.04 pesos (US$0.83) per kg. "We do not control prices," said Ferrari. "Our goal is to ensure that there are no abuses."

Industry sources argue that the increases are necessary to cover the cost of corn, which has risen since the end of December. "In any industry, when costs of production increase, there is an adjustment in prices. It doesn't matter whether this occurs in our country or anywhere else in the world," said Guillermo Campos, director of the Consejo Promotor Regulador de la Cadena Maíz-Tortilla (PROTORTILLA).

The Mexican government insists, however, that the price increases are not justified because there are adequate supplies and that the industry just wants to engage in speculation.

Agriculture Secretary Francisco Javier Mayorga also noted that Mexico is adequately protected from possible increases in global food prices in the coming year. He said Mexico has some safeguards, including adequate domestic production of grains and access to foodstuffs from the US and Canada, its two partners in the North American Free Trade Agreement (NAFTA).

Reliance on imports keeps Mexico vulnerable

Critics say the government should look beyond ensuring adequate supplies and more toward reducing reliance on imports. They pointed to a report from the US Department of Agriculture (USDA), which said that Mexico now relies on imports for 30% to 40% of its food needs, compared with 10% in the 1980s, before NAFTA went into effect.

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Mexico relies on imports for 35% of the corn consumed in the country, and some forecasts say that the total could climb to as high as 50% by 2025, said Antonio Turrent, a researcher at the Instituto Nacional de Investigación Forestal, Agrícola y Pecuaria (INIFAP).

"It was a mistake to abandon our policy of self-sufficiency and begin to meet demand with imports," said Turrent. "Countries like Japan, China, or India would never allow the loss of self-sufficiency in rice. The same goes for the US and European countries regarding wheat, which is important to them."

"The high level of imports makes Mexico increasingly vulnerable to international price fluctuations, especially when dealing with basic products like corn," said the Mexico City daily newspaper. "Because of this, many specialists are urging the government to strengthen production and the competitiveness of our agriculture industry."

Some experts believe that Mexico is capable of moving back toward self-sufficiency, but it would have to consider the controversial move of increasing the use of genetically modified (GM) varieties of corn. The Calderón government has allowed limited cultivation of GM corn, which has drawn strong protests from environmental groups and campesino organizations (SourceMex, March 25, 2009) and (March 10, 2010).

"If we continue on our current path, our deficit of 9 to 10 million tons of grains could increase to 15 million tons in five years," said José Manuel Madero, Latin America director of the seed company Monsanto.

Madero warned that inventories of grains are rapidly diminishing in countries that have been major producers such as the US, and that makes it important for Mexico to speed up its domestic production. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 2, 2011, reported at 12.02 pesos per US$1.00.]

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