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## **Report Projects Improved Corn Production for Mexico, but U.S. Drought Could Affect Domestic Prices**

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A new report on corn production in Mexico has put the country's food-security prospects in a more positive light for the near term, but strong concerns remain about the negative impact of global commodity prices because of a severe drought in the US.

The US drought, the worst in more than 50 years, and the expected damage to the corn and soybean crops could have a significant impact on prices in many areas of the world, including Mexico. But the impact south of the border could be limited. A report says that Mexico is projected to have a fairly good corn crop despite extremely dry conditions late last year and into the early months of this year ([SourceMex, Jan. 25, 2012](#)). Mexico received timely rain during the crucial months of development for the corn in the fields, which could boost production to 16.12 million tons for the spring-summer cycle of 2012. The spring-summer cycle accounts for nearly 80% of Mexico's total crop.

This new projection, based on data collected by the Dutch-based Rabobank International, is about 260,000 tons above an earlier forecast from the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (SAGARPA) in July of this year.

### ***Timely rain helped improve planting conditions***

Rabobank International's projection for the spring-summer cycle could put Mexico's total corn output for 2011-2012 at 21.8 million tons, which would surpass the production of 19.2 million tons in 2010-2011. Drought has been a major factor behind reduced production in recent years ([SourceMex, Aug. 1, 2007](#), [Aug. 12, 2009](#), and [June 29, 2011](#)).

Rabobank International said ample rain fell in several states that had previously been classified as having "exceptionally dry conditions," which helped improve the production outlook. The increased moisture during key periods convinced many farmers to increase plantings, which should also help boost production. Good growing conditions currently exist in key corn-producing areas like Sinaloa, Jalisco, Michoacán, Veracruz, and México states, said the report from the Dutch agriculture financial services provider.

Because of the favorable moisture and good planting conditions, SAGARPA anticipates an increase of almost 24% in production of several important commodities, including corn. The others are beans, sorghum, barley, wheat, and rice, which are expected to total a combined 23.3 million tons for the spring-summer cycle.

Another factor that might have convinced Mexican farmers to plant more corn this season is the prospect of high global prices.

### ***High US commodity prices temper optimism***

But high commodity prices are a two-edged sword, since they greatly raise food costs for consumers. This concern became evident on Aug. 9, when the US Department of Agriculture (USDA)

confirmed that many states that account for the bulk of US production of corn, soybeans, and other commodities were facing the worst drought in 50 years. The USDA report predicted that US corn and soybean yields would fall to their lowest level since 1995, which would increase prices further.

Corn prices increased about 60% between early June and early August and are expected to rise further into September and October.

Soybean prices are also high because of a drought in Brazil and Argentina, which tightened global supplies of this commodity.

While commodity prices are expected to increase gradually in the US, some experts believe that the impact will be more immediate at the global level. "Globally it's a much more direct impact, a more immediate impact," Bill Lapp, president of Advanced Economic Solutions, told Reuters news agency. "A greater deal of the food consumption is done without further processing so you can have a much more dramatic impact in global prices."

Because of the possibility of tight corn supplies, many in the US and other countries are urging the US government to reduce the use of corn in ethanol production, which was one reason for a global spike in corn prices in 2007 and 2008 ([SourceMex, April 16, 2008](#)).

"In addition to the drought, [the US] is allocating an increasing amount of corn to ethanol production, which has seriously reduced the supplies available for human or animal consumption," Enrique Del Val Blanco wrote in the Mexico City daily newspaper *Excélsior*. "And we have to consider that we are talking about a country that is the source of 50% of this grain at the global level."

The situation caused others in Mexico to speak out, with the Mexico City daily newspaper *La Jornada* publishing an editorial entitled "Drought in the US: Hunger in Mexico?" The newspaper used a quote from Raúl Benítez, representative of the Food and Agriculture Organization (FAO) in Latin America. "This high level of prices represents, in the short term, another challenge for those nations who are net importers of grains and soybeans, especially those who depend on the US, such as Mexico, and countries in Central America and the Caribbean."

The editorial pointed out that the FAO's reduced projection for global rice production in Asia and the Pacific Rim because of drought would make the situation worse.

Even if production does increase this year, as projected by Rabobank International and SAGARPA, Mexico still has to wrestle with tight domestic stocks because of disappointing production levels in 2009-2010 and 2010-2011 ([SourceMex, Jan. 4, 2012](#)). The Consejo Nacional Agropecuario (CNA) recently reported that Mexico's suffered the third-largest production decline at the global level last year, surpassed only by South Africa and Ethiopia.

The unstable supply situation has already had some repercussions on food prices in Mexico. The FAO reported that Mexico had the second-highest food-price indexes in Latin America the first half of the year at 8.5%, surpassed only by Argentina's 11.1%. Brazil, Costa Rica, and Ecuador rounded the top five.

### *Questions arise about large corn purchase from US*

Because of tight supplies, Mexico has been forced to contract record purchases of corn from the US, primarily for use as animal feed. In early August, the USDA reported that private importers

in Mexico had agreed to buy a record 1.5 million tons of corn from US sources for shipment in the 2012-2013 and 2013-2014 marketing years.

The news of the record imports of corn brought conflicting reactions from President Felipe Calderón's administration. The Secretaría de Economía (SE) said it was not aware which parties in Mexico acquired the corn, but Economy Secretary Bruno Ferrari suggested that the purchases might not have been necessary. "This is a decision made by the private sector. We have a free-trade agreement with the US, and we have no control or a need to interfere," Ferrari said in an interview with the Mexico City daily newspaper Reforma.

But the economy secretary added, "I am concerned that is happening at a time like this, precisely when SAGARPA has said that we are in good shape with our corn production. I would like to know more about the motivation behind these purchases."

But deputy agriculture secretary Mariano Ruiz-Funes said the imports involve yellow corn, used primarily for livestock feed, and will not distort domestic prices for white corn, used mostly for human consumption. "The imports are used to complement national production," said Ruiz-Funes, who noted that Mexico has historically acquired between 7 million and 9 million tons of corn per year from the US. "What we have here is a consolidation of imports...in the context of a volatile market."

Agriculture Secretary Francisco Javier Mayorga Castañeda offered reassurances that Mexico's supply of basic foodstuffs is "basically guaranteed" despite the US drought and the volatile global prices. He emphasized that ample production in Mexico would boost domestic supplies and act as a buffer against higher global prices.

The Mexican poultry industry is a beneficiary of the increased imports of yellow corn. Lower feed prices could help poultry producers face a crisis that resulted from a recent outbreak of avian flu in Jalisco state, which forced a quarantine and the destruction of about 1 million birds ([SourceMex, July 11, 2012](#)). The outbreak also resulted in price speculation, which led the government to ease import restrictions. While the policy was intended to help consumers, many producers in other parts of the country were unhappy about that decision, suggesting that domestic supplies were ample enough to meet demand.

Ferrari is adamant that the government will not allow price speculation in eggs. "We are not going to allow it," said the economy secretary. "If necessary, we are going to remove all import tariffs. We cannot allow the actions of a few [merchants] to cause an increase in egg prices for 115 million Mexican consumers."

### *Critics attack administration's shortsighted policies*

But critics contend that many of the Calderón administration's actions regarding agriculture policy have been shortsighted. Instead of reacting to a crisis by eliminating tariffs to boost supplies, as was the case following the commodity crisis in 2007-2008 ([SourceMex, June 25, 2008](#)), the administration should put more effort toward ensuring that domestic producers are viable, the critics contend.

Mexico's agricultural imports increased by 35% in 2011, which agriculture organizations say is excessive for a single year. Several groups suggested that the government should find ways to make its subsidy programs for farmers and ranchers more efficient to ensure that they have the necessary resources to adjust to drought conditions.

"Some producers will be able to plant more corn because of the global price increases," said Héctor Salazar, president de la Confederación Nacional de Productores Agrícolas de Maíz de México (CNPAMM). "But this is true only for those producers who are able to use modern techniques."

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