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Voluntary Public

Date: 12/15/2010

GAIN Report Number: MX0094

Mexico

Post: Mexico

Tortilla Price Crisis... To Be Determined

Report Categories:

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Report Highlights:

Tortilla politics and posturing abounded this week, leading to Mexico's second "tortilla crisis" since 2007, as one of the representative organizations for tortilla makers, the National Union of Corn Mills and Tortillerias (UNIMTAC) threatened to increase tortilla prices by 50 percent. The Government of Mexico (GOM) interceded and warned that price collusion is a punishable crime in Mexico. Now, following negotiations with the GOM, UNIMTAC leadership is seeking access to existing government support programs. As negotiations continue and support programs requirements are modified, pressure to increase the price of tortillas has halted. Modest price hikes could surface (e.g, 0.5 pesos per

kilogram in Mexico City and 1.0 peso per kilogram in other cities) after January 1, 2011, when a wider group of industry members meet with the GOM to discuss tortilla prices.

General Information:

Tortilla Makers Threaten Price Hike

On December 12, 2010, UNIMTAC President Lorenzo Mejía issued a press release stating that the average price for tortillas could increase to a minimum of 12 pesos per kilogram (U.S. \$0.96/kg) and that prices would continue increasing. Mejía said that speculation in commodity markets led to higher corn prices and called for negotiations with the GOM to ease tortilla makers' pain.

Mejía stated that UNIMTAC members were planning to raise prices by 50 percent to meet rising corn prices and other increasing operating costs. UNIMTAC confirmed that corn tortilla prices had risen to 11 pesos (U.S. \$0.88) in some areas of Mexico City. The rationale, according to Mejía, was that domestic corn prices increased from 3,200 pesos to 4,200 pesos per metric ton (MT) over the last month (U.S. \$256 to 336 per MT). [NOTE: Current information suggests that corn destined for Mexico City costs around 3,500 pesos per MT (U.S. \$280 per MT) and that farm prices are around 3,000 pesos per MT (U.S. \$240). END NOTE.] In addition, Mejía warned that it was impossible for UNIMTAC tortilla makers to continue absorbing this cost increase as members would be doomed to bankruptcy.

The UNIMTAC leader added that the situation for tortilla makers and dough producers is dire. He suggested that the traditional *Nixtamal* dough and tortillas made with it have an official price controlled by the GOM for the next 10 years. (*Nixtamal* is ground corn cooked with limestone. After cooking, the ground corn is milled into flour or used for making dough for flatbread).

According to sources in the National Chamber of Industrialized Corn (CANAMI), which represents several leading corn flour producers, the number of companies represented by Lorenzo Mejía and UNIMTAC is questionable. Lorenzo Mejía claimed that his organization represents approximately 60,000 tortilla makers nationwide, while CANAMI stated that this organization has no national representation and only represents between 1,000 to 1,500 tortilla makers located in northern parts of Mexico City. [NOTE: An industry contact reports that there are between 80,000 and 100,000 tortilla makers in Mexico and the weighted average price of tortillas is 9.90 pesos per kilogram (U.S. \$ 0.79/kg). END NOTE.]

Apparently, Mejía wants access to the corn dough support program called "ProMasa" (See GAIN Report [MX0049](#)) and, possibly, "Mi Tortilla," which would allow UNIMTAC members to qualify for support payments from the GOM. Thus far, according to CANAMI, UNIMTAC members have been unable to access the ProMasa support program because member companies cannot meet the technical and legal requirements necessary to qualify for the program.

Tortilla Makers Back Down

The Secretary of Economy, Bruno Ferrari, published a press release on December 14, 2010, stating, "Substantial increases in tortillas prices are not justified as corn prices have stabilized or even fallen since November." The Secretary acknowledged higher costs for gas and electricity, but indicated that these do not justify "a 50 percent increase in tortilla prices as announced by UNIMTAC."

After meeting with the leader of UNIMTAC, Ferrari pointed out that the increase in tortilla prices will not take place as announced by UNIMTAC. In addition, Ferrari said, "Although the price of tortillas depends on the forces of supply and demand, anyone who charges a 50 percent increase in tortilla prices

as announced on Sunday, will be sanctioned by the Federal Consumer Protection Agency with fines ranging from 500 to 2 million pesos (U.S. \$40 to \$160,000),” based on provision 128 of the Mexican Consumer Protection Law. The Secretary stated he would not allow abuse and collusion in the market and said that the supply of white corn is adequate for the domestic market.

UNIMTAC President, Lorenzo Mejía, issued a press release on December 14, 2010, as well. The release announced that UNIMTAC would stop the 50 percent increase in tortilla prices that had been announced two days earlier. Moreover, Mejía stated UNIMTAC has initiated negotiations with SE to accelerate access to the ProMasa support program. Mejía affirmed, "This is the beginning of building solutions with the authorities and we support the effort to maintain tortillas prices available to the public."

CANAMI sources stated that SE warned UNIMTAC during the private discussions that if union members increase tortilla prices as announced, they would be accused of collusion, a crime subject to severe sanction.

Support Program Requirements Modified

On December 15, SE published a modification to the Rules of Operation for the ProMasa Program in the *Diario Oficial* (Federal Register). This modification increases the amount of subsidized *Nixtamal* dough per month from 18,653.85 MT to 50,000 MT. Although this increase is due to SE's attempts to avoid an increase in tortilla prices, CANAMI sources indicated that the program has been largely inefficient due to its complex rules of operation. The ProMasa Program offers 0.6 pesos per kg of *Nixtamal* dough to small and medium enterprises and 0.5 pesos per kilogram to low-income consumers. Sources added that, at present, no subsidies had been distributed in 2010 to tortilla producers and that industry was hopeful that 97 million pesos (U.S. \$7.76 million), a small amount considering the production and consumption of tortillas in Mexico, would be disbursed in the third week of December.

Additional Background

Tortillas are an important staple in the Mexican diet (per capita consumption is roughly 90 kilograms), and while the price is open to market forces of supply and demand, it remains a sensitive matter for the GOM. In early 2007, when international corn prices doubled and pushed tortilla prices higher, the GOM increased corn import quotas, made a pact with tortilla makers and retailers to cap tortilla prices, and threatened legal action against hoarders and others caught refusing to sell goods in an effort to get even higher prices.

SE stated that the Federal Consumer Protection Agency will monitor tortilla outlets for possible abuse and collusion, and urged consumers to compare prices at different establishments.

Data from SE shows that average tortilla prices from tortilla shops have remained stable from a year ago, but that prices in supermarkets have increased. Mexico's annual inflation was 4.3 percent at the end of November, and Mexico's Central Bank expects inflation to be at 3 percent in the second half of 2011. SE pointed out that the increase in the average price per kilogram of tortillas has stayed below inflation.

According to private analysts, corn tortillas account for 1.2 percent of the consumer price index and "a

price increase in the magnitude that the union suggested would have a sharp impact on near-term inflation, but we (private analysts) think it is unlikely to materialize."

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MX0047	July Grain and Feed Update	07/23/10

Useful Mexican Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx and Mexico's equivalent to the U.S. Department of Commerce (SE) can be found at www.economia.gob.mx. These web sites are mentioned for the readers' convenience but USDA does not in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.