Institute for Agriculture and Trade Policy

Biofuels and Tortillas:
A US-Mexican Tale of Chances and Challenges
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There is much talk about the rise in corn prices in the U.S. in relation to ethanol and an increase in tortilla prices. We are witnessing a rich debate in terms of where biofuels production will go (what form it will take) in the U.S. and Mexico, and the relation to food security and fair trade. IATP believes we are experiencing an historic opportunity to reconfigure agriculture policies in support of sustainable development goals based on renewable energy, local ownership and food security – if done right. On the other hand, there is potential to do real damage if we do not take the time to get our policies right. That is the challenge and the basis for my comments today.

I will take a moment and say something about biofuels in the U.S., then switch to Mexico, and finally a broader discussion about biofuels and development as part of my conclusion.

Opportunity and challenge for the U.S.

According to the Renewable Fuels Association, between 2001-2005, U.S. ethanol production doubled to more than five billion gallons a year and will likely double again within the next few years. The Food and Agricultural Policy Research Institute (FAPRI) issued a news release on March 5, stating: "Expected corn use for ethanol almost doubles in the 2007 crop year from the 2005 crop and exceeds 4 billion bushels or 32 percent of the nation's corn crop by 2009." Increased ethanol production has driven the price of corn up to $4 a bushel today.

As we are all seeing, growth in ethanol has had a profound impact on the U.S. agricultural economy over the last few years. It has provided income for farmers who have not seen a fair price for their corn in over 30 years. On the one hand, corn ethanol is:

- An alternative to more polluting MTBE (gasoline additive);
- Generating a viable income for farmers that hasn't existed in decades;
- A segway into cellosic biofuels production, which is the wave of the future in renewable energy.

On the other hand, corn mono-cropping is already eroding U.S. farmland, is water-intensive, increases the amount of herbicides used and is not considered as viable as cellulosic biofuels in its long-term potential. Furthermore, even though corn prices

are high today, it is likely they will eventually drop as more farmers plant more crops, corn is overproduced and prices go down. Daryll Ray of the Agricultural Policy Analysis Center in Tennessee writes that the last time we wrote a farm bill (U.S. 1996 Freedom to Farm Act) based on high prices and growing demand, farm prices dropped from $3.24 to $1.94 in a two year period and emergency payments ballooned between 1998 and 2001. [1]
IATP considers that a sustainable biomass based system has the potential for much higher production levels and better environmental and economic benefits in the U.S. and abroad. Grasses, trees, crop and forest residues provide many times more biomass than corn ever could. We are in an important and historic debate here in the U.S. in relation to the Farm Bill. In this light, IATP believes that if farm-based renewable energies continue to play an inconsequential role in our nation's energy security, then the 2007 Farm Bill will have been a failure from an energy perspective. However, if we build a renewable fuels system based on perennial crops, local ownership and food security, then the 2007 Farm Bill will have been a success in this country that will reverberate around the world.

Tortillas and Food Security in Mexico

In making the link between the U.S. ethanol boom and Mexico, there is much to say. Tortilla prices rose in Mexico by 14 percent in 2006,[2] more than three times the inflation rate, and have continued to surge in the early part of 2007. Different articles have been written to shed light on what has been going on. While it may be true that tortilla prices have gone up partly due to the rise in ethanol plants and higher corn prices, the highest in a decade, it also appears that Mexican corn prices have risen too quickly to be experiencing a ripple effect from the U.S. corn ethanol boom.

There are simple facts: U.S. ethanol uses yellow corn, the price of which has risen steeply. Mexican tortilla makers use white corn, the price of which has risen at a much slower rate. While Mexican tortilla conglomerate, Gruma, has claimed that the price hike in tortillas was simply in response to higher corn costs, one has to question the logic based on the different corn varieties being used for different purposes.

Many are coming to realize that corporations controlling the tortilla market are at the heart of the crisis today. Archer-Daniels-Midland, the leading U.S. ethanol maker and a major grain buyer owns approximately 27 percent of Gruma, Mexico's leading tortilla maker. ADM also owns a 40 percent share in a joint venture with Gruma to mill and refine wheat.[3] When Mexican consumers can no longer afford tortillas and have to switch to white bread, Gruma and ADM still gain.

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[1] Ray, Daryll E. "When Framing a Farm Bill, Betting on 'High Prices' May Be a Long Shot". Agricultural Policy Analysis Center. University of Tennessee. Knoxville, Tennessee. February 23, 2007.
[2] The Associated Press. "Mexican president signs accord to contain soaring tortilla crises." January 18, 2007.
[3] Portfolio of Archer-Daniels-Midland at Reuters web site in the 'stocks' section: http://stocks.us.reuters.com/stocks/fullDescription.asp?symbol=ADM.N&WTmodLoc=InvArt-C1-ArticlePage1

Additionally, Cargill, which is the world's biggest grain buyer, is being investigated for price-fixing in the tortilla market in Mexico.[4] They deny having been involved with any hoarding of corn supplies with the intent of increasing the price. However, this is in dispute.

The tortilla crisis in Mexico, while likely has something to do with higher U.S. corn prices due to biofuel production, has more to do with failed macroeconomic policies that over time have allowed for corn dumping into Mexico and the destabilization of the Mexican corn industry. NAFTA in particular has created instability, loss of employment and food insecurity that is so prevalent in Mexico today.

Peter Rosset from The Center for the Study of Rural Change (CECCAM), MX writes: "the current crisis is the result of two basic forces: 25 years of misguided policies and coming together of agribusiness interests such as Cargill and the biotech seed industry."

In preparation for NAFTA, the Mexican and the U.S. government stripped away important tools such as incentives to farmers not to overproduce - supply management programs, price controls, farmer set-asides, and key tariffs on corn and beans. The result of dismantling those programs was massive oversupply of grains, rock bottom prices and the loss of many farmers in the U.S. and in MX.

Since NAFTA, the U.S. has actually increased subsidies by billions to farmers as a result of overproduction and plummeting grain prices. Since NAFTA, Mexico has lost over 1.5 million jobs in its rural sector. Between 1994 and 2000, the national production of corn in MX was reduced by almost four percent while corn imports grew by 136 percent. The guaranteed price to farmers was reduced by 43 percent between 1994 and 2000, while tortilla prices went up by as much as three times (as much as 571 percent).[5] And U.S. corn dumping into MX increased.

Since NAFTA, the agribusiness groups have consolidated, using cheap corn and other crops to gain more profits. These same agribusinesses have been able to gouge Mexican consumers today. After large scale protests in Mexico, President Calderon managed to get a voluntary agreement among tortilla makers and corn-flour processors including Gruma/ADM, Maseca, Minsa, Bimbo, Walmart and Cargill to maintain tortilla prices at approx. 78 cents per kilogram rather than the 1.36 – 1.81 to which it had risen. However, this agreement is not binding, leaving room for further price manipulation and a potential increase in food insecurity.

Reduction in corn dumping

Since the 1996 Farm Bill and as part of the NAFTA implementation, U.S. based grain companies have exported corn at approximately 20 percent below their cost of production - a practice known as dumping. It has pushed Mexican farmers out of local markets, severely limiting their ability to compete. With today's high corn prices

[4] Corporate Crime Reporter. "Mexican Authorities Probe Cargill for Hoarding White Corn." 21 Corporate Crime Reporter 8. February 13, 2007.
[5] Juarez, Laura. Article from La Jornada. Mexico. 2003.

in response to ethanol demand, we are actually seeing a decline in U.S. corn dumping. The USDA reported recently "that much of the additional corn needed for ethanol production will be diverted from exports."[6] If only a quarter of proposed U.S. ethanol plants currently proposed in the Midwest come on line, exports from the Midwest corn belt could be cut in half.[7]

Some Mexican corn farmers are expanding corn production seeking to climb on board the ethanol train.[8] Perhaps some MX corn growers hope to cushion the final blow of the full removal of tariffs on corn and beans under NAFTA by riding the ethanol wave.

The Associated Press states "Mexican farmers who now plant corn on 21 million acres are proposing expanding by 4.3 million acres in 2007 alone." Mexican entrepreneurs are lining up to build ethanol plants across the country. And, it seems that leftist lawmakers seek to require oil companies to use biofuels and guarantee a local market for corn growers in MX. Unfortunately, in the case of MX, 60 percent of the corn growers are subsistence farmers and stand little to gain in the production of corn for biofuels due to their lack of access to credit, resources, and infrastructure.[9] Furthermore, one cannot help but identify the irony around planting more corn to supply the burgeoning biofuels market when there is so much food insecurity within Mexico that is related to the corn crisis.

Biofuels and Development

Biofuels are touted by many in the international community as a new opportunity for growth for developing countries. However, growth in biofuels will not be the panacea to resolve the global crisis around unsustainable use of fossil fuels and unsustainable consumption patterns that are supported by industrial agriculture and negatively impacting the environment. It will not solve agricultural commodity market distortions that are associated with free trade policies and have devastating impacts on other countries. And, it will not serve as a magic bullet to address social needs such as employment, local ownership, and food security.[10]

On the other hand, bioenergy does provide an historic opportunity to address climate change, and revitalize agriculture and development – in the U.S. and abroad. Working with other partners in the U.S., IATP has developed some basic principles around sustainable biomass production.[11] These include but are not limited to:

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[6] USDA ERS. Feed Outlook. July 14, 2005. http://usda.mannlib.cornell.edu/reports/erssor/field/fds-bb/2005/fds05f.pdf

[7] Muller, Mark and Schoonover. *Staying Home: How U.S. Ethanol will Change U.S. Corn Exports.* IATP. December, 2006. http://www.agobservatory.org/library.cfm?refid=96658

[8] Watson, Julie. "Mexico's Corn Farmers Expanding Production to Reap Benefits of Rising Prices." Associated Press. February 19, 2007. http://www.soyatech.com/bluebook/news/viewarticle.ldml?a=20070219-10

[9] Ibid.

[10] Muller, Mark and Tammy Yeldon. Unreleased draft of *Food Vs. Fuel: The Renewable Fuels Debate.* IATP. 2007.

[11] Kleinschmit, Jim. *IATP Sustainable Biomass Production: Principles and Practices* at www.iatp.org. 2006,IATP.

- Biomass must not be produced in any way that imposes unjust burdens on economically or socially marginalized communities, including communities in the Global South.
- Safeguards must be put into place to ensure local consumption is prioritized over transporting or exporting biomass energy away from communities that produce them.
- Local farmers and communities should have ownership and control over biomass production and processing facilities.
- Large-scale production of biomass must not be allowed to jeopardize food security.
- Public support and incentives must be focused on small-scale and local development, production and ownership.
- Agricultural communities and workers must be protected.
- Biomass production must be sustainable for the environment and public health.
- Bioenergy must not be used to enable the unsustainable level of consumption.

In conclusion, IATP has welcomed this opportunity to talk about the biofuels and tortilla crisis. This current debate is just another example of what went wrong with NAFTA in the context of agriculture and the fact that we are desperately in need of programs that protect the aspects of life that we hold so dear: our food, our environment, our health and our community (this includes our local community, the one next door and the one across the way).

Thank you.
Alexandra Spieldoch
Director of the Trade and Global Governance Program
Institute for Agriculture and Trade Policy
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