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As corn prices rise, Mexican farmers scramble to plant more

As world corn prices soar on demand from ethanol producers, mexican farmers plant more

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SAN SALVADOR EL SECO, Mexico -- High corn prices are wreaking havoc on Mexico's inflation rate and forcing shoppers to pay more for eggs, milk and tortillas. But they're a godsend to farmers such as Victor Manuel Amador Luna.

With world corn prices riding high on strong demand from U.S. ethanol producers, Amador is looking to expand production on his farm about 125 miles east of Mexico City in the state of Puebla. He planted most of his 222 acres with corn this year and is looking to buy more land.

"I've never seen prices this high in my lifetime," said Amador, 79, his smile wide, like the crack in the dusty windshield of his Chevy pickup.

How long the bonanza will last is anyone's guess. What's clear is that America's thirst for corn-based ethanol is being felt around the globe, delivering fatter profits for grain farmers but higher costs for livestock producers, food processors and consumers.

The United States is the world's No. 1 corn producer and exporter, shipping an estimated 2.2 billion bushels to international buyers last year. Most nations can't compete with government-subsidized U.S. corn, which countries such as Mexico have come to rely on to fatten their hogs, chickens and cattle.

But with 110 ethanol plants in the United States snapping up hundreds of millions of bushels and an additional 63 refineries slated to come on line in the next 18 months, some foreign farmers are betting that America will soon have less of the grain available to export. Agricultural economists say Argentina, Brazil, South Africa and Mexico are among the nations planting more corn to pick up the slack in their own domestic markets and perhaps score some export sales as well.

MEXICAN ETHANOL

In addition, Mexico is gearing up to supply its own ethanol industry. Lawmakers are contemplating legislation that would require the state-owned oil company Pemex to

oxygenate its gasoline with corn-based ethanol. Two plants are under construction in the rural state of Sinaloa, where officials are looking to create employment and provide farmers with a reliable outlet for their harvests.

"We have to take advantage of any opportunity that represents a betterment of the countryside," said Carlos Quevedo, director of agriculture for Sinaloa. "We're hoping that now abundance has arrived."

Agriculture has been a constant source of trade friction between Mexico and the United States since the launch of the North American Free Trade Agreement in 1994. Although overall farm trade between the neighbors has exploded and Mexico has narrowed its agricultural trade gap, Mexican producers have complained about fat U.S. government subsidies in commodities such as corn, beans and milk powder, which they say makes it impossible for them to compete in those critical staples.

NAFTA'S IMPACT

Mexico has shed nearly 30 percent of its farm employment since NAFTA was implemented. Many of the jobs belonged to subsistence farmers who fled to the United States.

Some rural advocates have said another wave of migrants will be headed north next year, when all remaining tariffs and quotas on agricultural products are lifted as part of the NAFTA agreement.

But high corn prices are easing some concerns for now and putting more money in the pockets of rural dwellers such as Aldo Cruz Matillas, an 18-year-old farmhand in Puebla state. Local growers are paying him almost \$11 a day to help with harvest, a 20 percent pay raise over last year.

On a recent afternoon the teenager guided a John Deere tractor through a freshly harvested cornfield while his co-workers walked alongside the wagon hitched to the back. The grain is now so valuable that the men were scouring the ground for any stray ears missed by the combine that had passed through earlier that day. Cruz said his older brothers migrated to the United States. But, if he can make a living, he said he would rather stay put.

"There is a lot more employment now," he said. "More hope."

Indeed, Puebla is experiencing a surge of interest in corn production. About 5,300 farmers have joined a government-sponsored program to boost Mexico's supplies of yellow corn, according to agronomist Adelfo Salazar Mendoza, coordinator with the state's Council of Corn Producers.

Most corn grown in Mexico is the white variety geared for human consumption in tortillas and corn meal. It historically has fetched a premium over yellow corn, which is

used for animal feed and ethanol. Mexico last year imported nearly 4 million metric tons of yellow corn from the United States. That's more than three times the amount produced domestically, according to Mexican government figures.

But Puebla livestock farmers concerned about food security persuaded the state government four years ago to help them begin developing reliable sources of local production. Officials provided small grain farmers with up to 25 acres' worth of free seed, subsidized fertilizer and technical assistance. The government also helped finance a communal pool of tractors, combines, planters and other tools to boost productivity. Growers signed contracts with a local livestock association, guaranteeing them an outlet for their crop. Livestock producers secured corn at prices below market thanks to the government subsidy provided to corn farmers.

PRODUCTION TO DOUBLE

Salazar said the incentives last year resulted in the cultivation of 37,000 acres of yellow corn in Puebla. He said he expected that acreage to double this year.

"We are children of corn," said Salazar, noting the grain's cultural and historical significance to Mexico. "We can't let this industry disappear."

That's good news for Raniero Ludoviko de la Vega, head of purchasing for a Puebla company that produces hogs, sheep and eggs. The operation has imported most of its yellow corn from the United States and saw prices spike more than 60 percent last year. De la Vega said the local corn bought by his company was less expensive and of higher quality than the American stuff.

Although rising feed prices have hurt his company's profitability, he said he was pleased to see Mexican grain farmers responding to a lucrative opportunity.

"I would rather the money stay in Mexico," he said. "We need to support and revitalize our farm sector."

Still, some experts say the current boon could be short-lived. Although some economists project surging demand for years to come, fueled by U.S. ethanol production, others say falling crude prices and a global rush to plant more corn could end the party in a hurry.

"Any significant drop in oil prices could cause a shakeout," said Pat Westhoff, program director with the Food and Agricultural Policy Research Institute at the University of Missouri. "You could see a lot of corn with no place to go."