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In August, two of the largest corn-processing companies in North America Mexico's Grupo Industrial Maseca and US- based Archer Daniels Midland (ADM) announced an agreement to merge some of their operations in the US and Mexico. Under the agreement, ADM agreed to pay US$258 million to acquire 74.7 million shares of Maseca, or the equivalent of a 22% stake in the Mexican company. The agreement is subject to the approval of Maseca stockholders and the appropriate regulatory agencies in both the US and Mexico, including the Mexican government's federal competition commission (Comision Federal de Competencia).

At a press conference announcing the agreement, executives for the two companies said the transaction will be beneficial for both parties. Dwayne Andreas, ADM chief executive officer, told reporters the agreement will provide the Illinois-based company with access to the rapidly growing US tortilla market, as well as a foothold in the Mexican cornmeal market. Maseca accounts for 70% of the cornmeal produced in Mexico and supplies about 30% to 40% of the raw materials used in the production of tortillas in the country. In the US, Maseca operates cornmeal plants in seven states, including Arizona, Texas, and California. In 1993, the company started construction of three plants in the Midwest to take advantage of the growing demand for tortillas in the US.

Maseca director Eduardo Livas Cantu told reporters the ADM-Maseca partnership will own a 25% share of the total cornmeal market in the US. Financial-market analyst Richard Elam of Everen Securities in Chicago told the Mexico City daily newspaper The News that the transaction could also reduce production costs for Maseca's corn-milling operations. From Maseca's standpoint, Livas Cantu said the agreement will allow the Mexican company access to new technology and resources for advertising and promotion. More importantly, said Livas Cantu, Maseca will now be able to tap into ADM's vast global transportation and distribution network, which will allow the Mexican company to eventually expand into the European and Asian markets. Maseca, which at one time was a state-run company, has expanded rapidly overseas.

In addition to the US, Maseca currently operates corn-milling and tortilla-manufacturing plants in Costa Rica, Guatemala, Honduras, and Venezuela. The agreement also gives Maseca a stake in ADM's two wheat-flour processing plants in Mexico. Livas Cantu said a major advantage of the association with ADM is that the Mexican company will receive a cash infusion to pay off debts of between US$230 million and US$245 million. He said the company will now be able to retire about US$40 million in short-term obligations. The cash infusion will also allow Maseca to spend about US $22 million to construct new plants. Before the transaction, the company had planned to spend only US$8 million to expand capacity at existing plants.

The ADM-Maseca merger comes at a time when the Mexican tortilla market is undergoing some important changes. For example, President Ernesto Zedillo's administration has initiated a pilot

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program to allow a limited number of manufacturers to produce tortillas under market conditions. These manufacturers would not be allowed to use government- subsidized cornmeal in the final product, but they would be allowed to sell tortillas at prices above the 1.40 pesos (US$0.18 cents) per kilogram set by the government (see SourceMex, 08/21/96).

According to Maseca's Livas Cantu, the government should allow more tortilla manufacturers the freedom to raise prices to improve product quality and allow manufacturers to recover the true cost of production, which he said was 3.70 pesos (US$0.49 cents) per kg. However, political analysts suggest the Zedillo administration will probably not implement a full-scale liberalization of the cornmeal and tortilla market, since any large-scale increases in the price of tortillas would carry major political repercussions. Even if the tortilla market is not opened, the Zedillo administration may have to contend with a separate proposal dealing with the right of the population to affordable foodstuffs. A plan under consideration in the agriculture committee (Comision de Agricultura) of the Chamber of Deputies proposes to eliminate the state-run foodstuffs company (Compania Nacional de Subsistencias Populares, CONASUPO) in favor of a more streamlined agency.

The author of the plan, Deputy Rafael Ceballos Cancino of the Institutional Revolutionary Party (PRI), told the Mexico City daily newspaper El Universal that the new agency would continue some of the functions of CONASUPO, such as providing subsidies for cornmeal and guaranteeing an adequate supply of basic foodstuffs for the general population. At the same time, Ceballos who chairs the agriculture committee suggested that changes in the mission of CONASUPO are needed because of the privatization of several of the agency's operations, including the large networks of grain elevators and warehouses, Bodegas Rurales Conasupo (Borucunsa) and Almacenes Nacionales de Deposito (ANDSA).

Ceballos suggested that the agency that would substitute for CONASUPO would actually benefit the Mexican population, since the agency would focus solely on ensuring adequate distribution of foodstuffs to the poorest segments of the population, rather than on multiple functions. In fact, Ceballos said the legislation creating the new agency would be accompanied with a constitutional amendment spelling out the rights of Mexicans to adequate nutrition.

Ceballos said the plan is still in the conception stage and must undergo further debate both in his committee and by legislators of all the major political parties. He did not provide a timetable when full legislation would be drafted to create the changes. "Our main objective is to reach a consensus among all the political parties that the state and society will continue its obligation to protect the rights of the poorest segments of the population to at least a minimal nutritional level," Ceballos said. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 26, reported at 7.50 pesos per US$1.00] (Sources: Agence France-Presse, Associated Press-Dow Jones, 07/24/96; Excelsior, 07/25/96 La Jornada, 07/25/96, 08/23/96; The News, 08/23/96; El Universal, 08/22/96; 08/23/96, 08/27/96; Novedades, 08/23/96, 08/27/96)

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