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Liconsa Lowers Milk Payments and Farmers Protest

Report Categories:

Policy and Program Announcements

Dairy and Products

Agriculture in the News

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Report Highlights:

Mexican milk producers have initiated public protests over the lowering of the price Mexico's parastatal milk company pays producers for domestic fresh milk. The producers have petitioned the Mexican Congress to force the GOM to re-raise the payment price and have threatened to block shipments of non-fat dried milk powder from the United States if the price reduction is not reversed. Liconsa has publicly stated that it has no intentions of giving in to such demands.

General Information:

Liconsa is Mexico's parastatal milk company that is charged with producing and distributing milk at subsidized prices to low-income citizens. Historically, Liconsa has purchased fresh milk from Mexican producers at a price set above market conditions with the help of GOM support. According to the company, the domestic fresh milk purchased under Liconsa purchasing programs represents approximately six percent of total Mexican milk production and over 25 percent of the milk distributed by Liconsa. Much of the remaining product produced is derived from non-fat dried milk imported from the United States.

According to Liconsa, in 2008 the company purchased 609 million liters of fresh milk from Mexican producers at a base price of 4.20 pesos per liter, with an additional 0.50 peso payment for producers meeting minimum quality standards. However, the company announced that it would begin paying producers 3.90 pesos per liter (in addition to the 0.50 peso quality payment), a reduction of seven percent. The company argues that the reduction is necessary to remain solvent as international milk prices have declined and that it cannot keep paying prices that are well above the market. Further, there are limits to the amounts of fresh milk it can buy and process due to the added challenges of processing, transportation, and distribution of fresh milk as opposed to dry milk powder.

Representatives of mainly small and medium Mexican milk producers argue that they cannot survive with the reduced payment, citing production costs of 5.20 pesos per liter. In addition, they argue that although the purchases represent only six percent of milk domestic purchases, it is used as a reference price within the industry, thus will affect all milk producers, not just those who sell to the parastatal. Liconsa counters that a study conducted by the Secretariat of Economy (SE) shows that production costs are actually 3.20 pesos per liter, implying a 40 percent profit margin even at the reduced price and that current international low-fat milk prices are 2.85 pesos per liter.

To plead their case, the producers descended upon Mexico City and the gates of the Mexican Congress. They blocked one entrance to the legislature using dairy cows and pleaded with members of the Mexican Lower House to secure meetings with GOM officials in an effort to restore the previous purchase price. The Congress promised to obtain meetings for the producers and produced a “point of agreement” supporting the producers’ demands.

The producer groups also threatened to continue public demonstrations if their demands were not met, both in Mexico City, in front of various Secretariats, and also at the border blocking shipments of U.S. dry milk powder which they claim is not only unfairly priced, but also inferior to their product.