Chapter 10

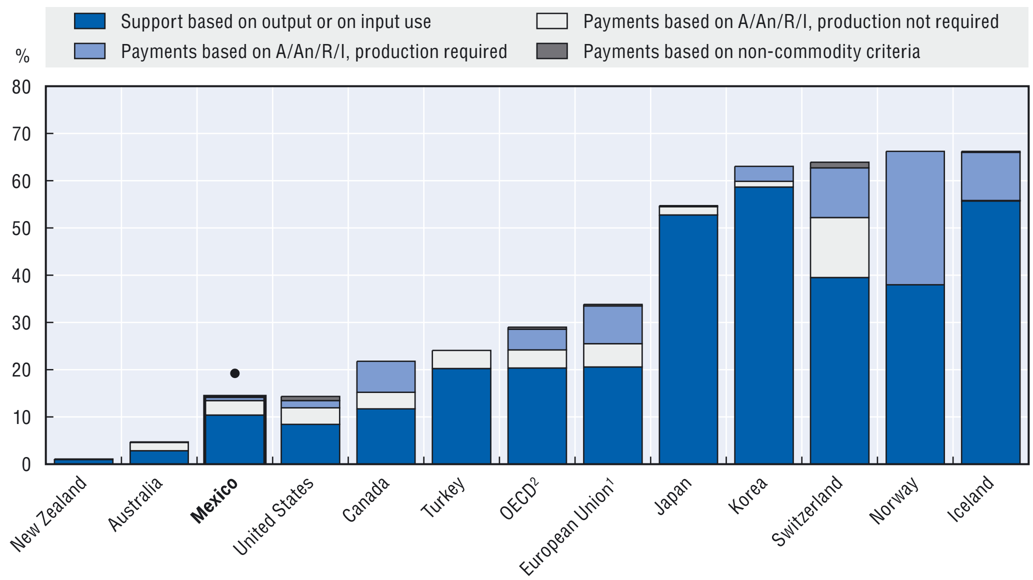
Mexico

Evaluation of policy developments

- Overall, there has been good progress in improving the market orientation of the sector. Compared to the OECD average, the level of producer support remains relatively low. However, market price support and payments based on output continue to represent more than half of producer support.
- Continuing reforms have reduced the degree of commodity market distortion, improved the effectiveness of income transfers to producers, improved the distribution of transfers, and improved transparency through decentralisation.
- The increase in support in 2006 was driven by an increase in the market price support for maize. Domestic price rises outpaced the rise in world prices. Consumers were adversely affected.
- The delays in implementing the "polluter pays" and "user pays" principles are postponing environmental benefits and allowing resource depletion to continue. Agricultural users of water remain subsidised, although some of this support has decreased in recent years.
- While progress was made, further reform should eliminate remaining trade barriers and replace the most distorting target income and input subsidies with less distorting targeted measures. Focus on measuring resource use should be improved.

Figure 10.1. **Mexico: Producer Support Estimate by country, 2004-06**

Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

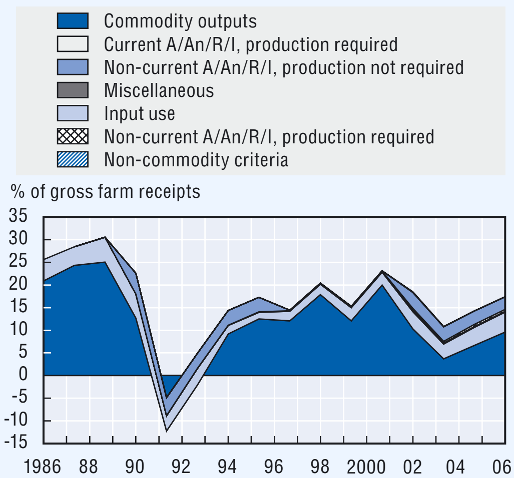
1 2 *http://dx.doi.org/10.1787/074315604688*

Summary of policy developments

General directions, objectives, and policy instruments did not change in 2005-06. Mexico has been preparing for full implementation of NAFTA in 2008. The PROCAMPO, set to help farmers cope with lower trade protection and with the removal of direct price support programmes before the inception of NAFTA, was planned to be phased out in 2008. However, the new administration announced that the programme would continue up to 2012.

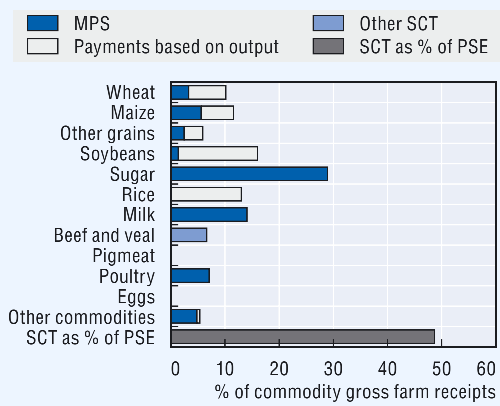
- Support to producers (%PSE) fell from 28% in 1991-93 to 14% in 2004-06. This is below the OECD average of 29% in 2004-06. Support increased in 2006 to 17%.
- The combined share of the most distorting forms support (commodity output and variable input based support) in the PSE decreased from 92% in 1991-93 to 60% in 2004-06. The least distorting support (payments which place no requirements to produce) accounted for 21% in 2004-06.
- Prices received by farmers in 2004-06 were 8% higher than those received in the world market, compared to 34% in 1991-93. The difference between domestic farm receipts and what they would have been at world market prices decreased from 39% in 1991-93 to 17% in 2004-06.
- Producer SCTs by commodity in 2004-06 were highest for sugar (29%), in the range 6-20% for beef and veal, poultry, wheat, maize, rice, milk, and soybeans and close to zero for pigmeat and eggs. The share of total SCT in the PSE decreased from 85% in 1991-93 to 49% in 2004-06.
- According to the %CSE, the implicit tax on consumers was 8% in 2004-06 compared to 25% in 1991-93.
- Support for general services provided to agriculture increased slightly from 11% in 1991-93 to 14% in 2004-06. Total support to agriculture as a per cent of GDP has fallen from 2.8% in 1991-93 to less then 1% in 2004-06.

Figure 10.2. **Mexico: PSE level and composition by support categories, 1986-2006**



1 2 *http://dx.doi.org/10.1787/074344410522*

Figure 10.3. **Mexico: Producer SCT by commodity, 2004-06**



1 2 *http://dx.doi.org/10.1787/074353505566*

Table 10.1. **Mexico: Estimates of support to agriculture**

MXN million

	1991-93	2004-06	2004	2005	2006p
Total value of production (at farm gate)	**86 539**	**389 007**	**377 470**	**380 768**	**408 784**
Of which share of MPS commodities (%)	*69*	*68*	*69*	*68*	*67*
Total value of consumption (at farm gate)	**82 500**	**391 427**	**373 715**	**374 201**	**426 365**
Producer Support Estimate (PSE)	**25 741**	**60 661**	**44 348**	**59 608**	**78 028**
Support based on commodity output	21 378	28 631	15 231	27 651	43 011
Market Price Support	21 218	24 603	12 309	22 981	38 520
Payments based on output	160	4 028	2 922	4 670	4 490
Payments based on input use	4 353	16 584	13 228	16 748	19 776
Variable input use	2 296	7 626	6 515	7 229	9 134
Fixed capital formation	1 680	6 984	4 650	7 589	8 714
On-farm services	377	1 973	2 062	1 930	1 928
Payments based on current A/An/R/I[1] production required	10	861	1 121	739	724
Of a single commodity	0	0	0	0	0
Of a group of commodities	10	861	1 121	739	724
Of all commodities	0	0	0	0	0
Payments based on non-current A/An/R/I[1] production required	0	1 833	1 425	2 004	2 070
Payments based on non-current A/An/R/I[1] production not required	0	12 630	13 116	12 466	12 308
Variable rates	0	0	0	0	0
Fixed rates	0	12 630	13 116	12 466	12 308
Payments based on non-commodity criteria:	0	123	228	0	140
Long-term resource retirement	0	123	228	0	140
Specific non-commodity output	0	0	0	0	0
Other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	**28**	**14**	**11**	**14**	**17**
Producer NPC	**1.34**	**1.08**	**1.04**	**1.08**	**1.12**
Producer NAC	**1.39**	**1.17**	**1.12**	**1.17**	**1.21**
General Services Support Estimate (GSSE)	**3 407**	**9 964**	**9 285**	**10 718**	**9 889**
Research and development	339	1 623	1 565	1 609	1 696
Agricultural schools	550	2 199	2 064	2 077	2 457
Inspection services	0	1 740	1 828	2 160	1 233
Infrastructure	809	1 284	1 323	1 815	712
Marketing and promotion	322	3 046	2 396	3 003	3 739
Public stockholding	1 210	0	0	0	0
Miscellaneous	177	71	109	54	51
GSSE as a share of TSE (%)	**10.9**	**14.5**	**18.0**	**15.9**	**11.4**
Consumer Support Estimate (CSE)	**–19 768**	**–32 220**	**–20 582**	**–30 593**	**–45 485**
Transfers to producers from consumers	–21 710	–24 713	–13 166	–21 498	–39 474
Other transfers from consumers	–770	–5 945	–6 036	–6 397	–5 402
Transfers to consumers from taxpayers	2 100	–2 091	–2 157	–2 767	–1 348
Excess feed cost	612	528	778	69	739
Percentage CSE	**–25**	**–8**	**–5**	**–8**	**–11**
Consumer NPC	**1.37**	**1.08**	**1.05**	**1.08**	**1.12**
Consumer NAC	**1.33**	**1.09**	**1.06**	**1.09**	**1.12**
Total Support Estimate (TSE)	**31 248**	**68 535**	**51 476**	**67 559**	**86 569**
Transfers from consumers	22 480	30 658	19 202	27 895	44 875
Transfers from taxpayers	9 538	43 822	38 310	46 062	47 095
Budget revenues	–770	–5 945	–6 036	–6 397	–5 402
Percentage TSE (expressed as share of GDP)	2.79	0.80	0.67	0.81	0.93
GDP deflator 1986-88 = 100	100	527	497	524	559

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted), An (animal numbers), R (receipts) or I (income).

MPS commodities for Mexico are: wheat, maize, other grains, coffee beans, tomatoes, rice, oilseeds, sugar, milk, beef and veal, pigmeat, poultry and eggs. Market price support is net of producer levies and excess feed costs.

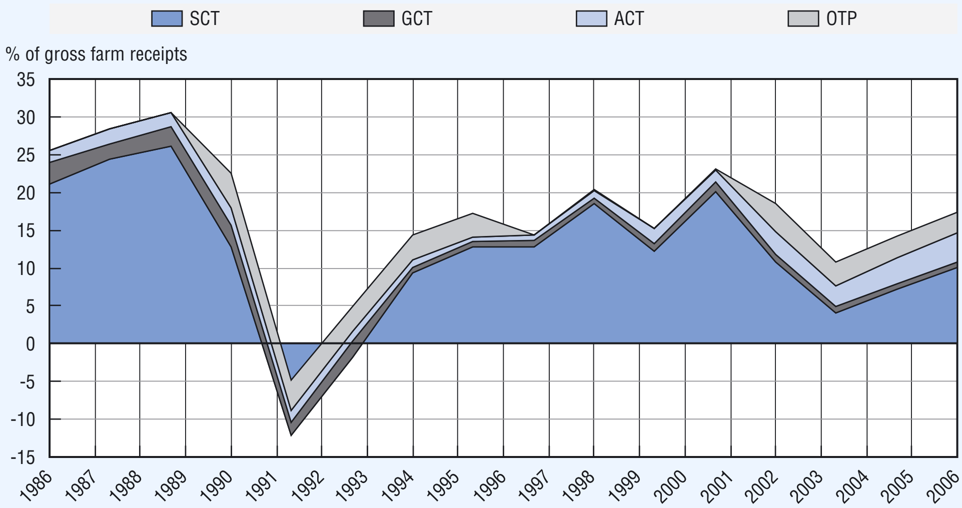
Source: OECD, PSE/CSE database, 2007.

1 2 *http://dx.doi.org/10.1787/075283246885*

Box 10.1. **Mexico: Commodity-Specificity of Support**

In Mexico, Single Commodity Transfers (SCT) made up 58% of the PSE in 2006, a reduction from 85% in 1991-93. Group Commodity Transfers (GCT), where producers have the option to produce one of a specified group of commodities as part of programme eligibility, made up 4% of the PSE in 2006, a reduction of 5% from 1991-93. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.[1] Together these comprised 38% of the PSE in 2006, up from 7% in 1991-93.

Figure 10.4. **Mexico: PSE level and commodity specificity, 1986-2006**



Source: OECD PSE/CSE database, 2007.

1 2 *http://dx.doi.org/10.1787/074371577725*

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

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Description of policy developments[1]

Main policy instruments

The direction, objectives, and policy instruments of agricultural policy in Mexico over the 2005-06 period continued to be determined by the Sectoral Program of Agriculture, Livestock, Rural Development, Fisheries and Food 2001-06. They aimed to align current productivity development programmes with marketing opportunities and the needs of domestic and export markets, ensure cohesion between incentives to increase agricultural production and the sustainability of resources and the environment, promote public policies that create a level playing field for competition with other North American Free Trade Agreement (NAFTA) members and improve efforts to fight poverty. Efforts to create and implement decentralized agricultural and rural development policies were continuing through Alianza Programs.

Agricultural policies consisted of market price support provided through tariffs and tariff rate quotas (TRQs), marketing support (ASERCA[2] Target Income Program); income support payments (PROCAMPO[3]), input support measures (energy subsidies, irrigation subsidies, rural and farm credit support policy), policies for water and other natural resources (Water Rights Acquisition Program, environmental stewardship provisions in PROCAMPO and PROGAN[4]), policies to improve productivity (ALIANZA[5]) and other policy measures (commercial promotion and agro-business development, weather-related disasters).

Domestic policy

The marketing programmes operated by ASERCA accounted for MXN 6.5 billion, representing 14% of the SAGARPA (Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación – Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food) budget in 2005. The Target Income sub-programme operates as a ***deficiency payment***. The provisions of the programme, which imposes a maximum yield per hectare that is determined for each region, vary according to each commodity covered. ASERCA also operates a series of measures designed to deal with surplus production and to improve market integration. The most important measures relate to price hedging and generally to the promotion of the knowledge and skills necessary for risk management. There are also measures for crop conversion.

PROCAMPO started in 1993, before the inception of NAFTA, to help farmers cope with lower trade protection and with the removal of direct price support programmes. By linking the payment to historical use of land, it was intended to help farmers switch to more profitable crops in the context of a more competitive economy. By paying all land owners who grew one of a list of eligible crops, rather than only those who sold their output, the programme's scope extends to subsistence farmers. The programme was planned to be phased out in 2008. However, it has been announced that the programme would continue up to 2012.

Expenditure under the PROCAMPO programme has varied little in real terms in recent years, accounting for about 14 billion MXN in 2005 and about one-third of all SAGARPA spending. One of the changes made recently by arrangement with certain financial institutions allowed for a producer to receive the present value of future entitlements in exchange for which the producer must submit an investment plan (capital formation). In 2006, over 20% of PROCAMPO was capitalised under this provision (up from 17% in 2005).

The agricultural sector currently accounts for 76% of Mexico's water use. ***Water policy*** has long subsidised agricultural users relative to others, although some of this support has decreased in recent years. The strengthening of hydro-agricultural infrastructure and projects for increasing efficiency in water management have been priorities for some time. The irrigation infrastructure for agricultural activities has been improved. Since 2005, two important projects, Baluarte Presidio and El Tigre, facilitate irrigation on an area of 22 500 hectares.

Alianza (*Alianza para el Campo*) began in 1996 and was revised in 2003 (*Alianza Contigo*) to serve as an umbrella for several programmes including many that focus on increasing agricultural productivity and helping farmers to add more capital to their operations. The basic objectives of Alianza elements that focus on agricultural productivity are to increase productive infrastructure, combat animal diseases, transfer relevant technology and promote integrated development of rural communities. In general, Alianza's yearly expenditures (which also includes rural poverty alleviation) have been around 3% of agricultural GDP. Final beneficiaries are required to provide matching contributions in order to access certain programmes. Operation of Alianza programmes is designed to decentralise decision making and implementation, through the participation and funding of federal and local governments as well as producers. Alianza currently accounts for about 16% of total spending by SAGARPA.

Trade policy

With the inception of the NAFTA in 1994, all the import barriers insulating the agricultural sector against trade with Canada[6] and the United States became tariffs or tariff quotas, and were scheduled to be eliminated gradually for all commodities. As of 2006, most of the ***tariffs*** on agricultural imports either have been phased-out, or are close to zero. However, transitional tariffs for the four products deemed most sensitive (maize, beans, milk and sugar) are to be phased out by 2008. In 2005, 78% of total agro-food imports came from NAFTA countries, and 86% of Mexico's agricultural and food exports were destined for those same countries.

Mexico has continued to conclude ***trade agreements*** with other countries. To date, 12 free trade agreements have been signed with countries or blocks of countries within North America, Central America, South America, Europe and Asia. Most recently trade agreements with Uruguay and Japan entered into force in 2004 and 2005, respectively.

In response to a WTO ruling in March 2006, Mexico eliminated the 20% tax on beverages containing high fructose corn syrup (HFCS) and sweeteners other than sugar.

Notes

1. OECD (2006), "Agricultural and Fisheries Policies in Mexico: Recent Achievements, Continuing the Reform Agenda", Paris.
2. ASERCA: "Apoyos y Servicios a la Comercialización Agropecuaria" (Agricultural Marketing Support and Services).
3. PROCAMPO: "Programa de Apoyos Directos al Campo" (Direct Payments Program for the Countryside).
4. PROGAN: "Programa de Estímulos a la Productividad Ganadera" (Programme to Improve Livestock Productivity).
5. Alianza covers three streams: Agriculture Enhancement Program, Livestock Enhancement Program, ALIANZA – rural development.
6. Agreement with Canada does not include sugar, poultry, milk and eggs.