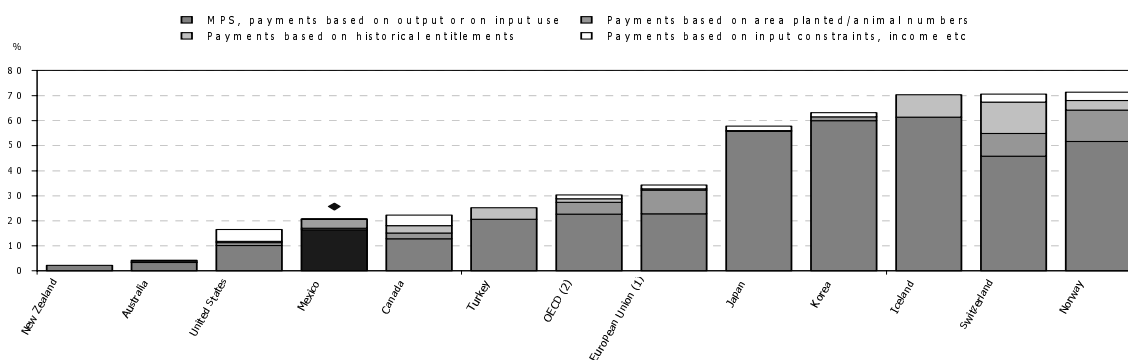


MEXICO

Evaluation of policy developments

- The level of support to agricultural producers remains relatively low. Since the early 1990's, heavy market interventions and traditional consumption subsidies for staples have been drastically reduced, while a pro-active food component was introduced in the poverty alleviation programmes. In the last few years there has been a reduction in market price support coinciding with the end of the transition period of NAFTA.
- However, the introduction of new deficiency payments for some crops and additional energy subsidies are movements in the opposite direction towards more distorting forms of support.
- Further, the irrigation subsidy appears to be in contradiction with the new programme to purchase water rights from farmers in over-exploited aquifers, raising the cost to the government of achieving their environmental objective.
- Some recent programmes have been better targeted to specific objectives such as traceability and extensification of cattle (cross-compliance conditions for headage payments), and improving the standards of meat processing plants (payments to animals slaughtered in certified plants) and this is a positive development.
- Administrative developments to computerise the management of the main support programmes have the potential to reduce their administrative costs and assist their evaluation.
- Trade liberalisation is placing adjustment pressure on the agriculture sector, and will require appropriate policy responses to ensure that the maximum benefit arises from the opportunities.

Producer Support Estimate by country, 2002-04
(Percent of gross farm receipts)



Notes:

1. EU15 for 2002-03; EU25 for 2004.

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

Source: OECD, PSE/CSE database, 2005.

Summary of policy developments

In 2004 the measures announced in the 2003 National Agreement on Agriculture were fully implemented. These include payments based on crop output, direct payments per head of cattle with cross-compliance conditions (PROGAN programme) and a higher subsidy to electricity and diesel for agricultural use. Mexico signed free trade agreements with Japan and Uruguay.

- Support to producers as measured by the %PSE was 21% in 2002-04 as compared to 3% in 1986-88 and 28% in the more stable currency period 1991-93. This is below the OECD average of 30% in 2002-04.

- The commodities with the highest level of support (above 30%) are sugar, maize and milk, while all meats have lower levels of support.

- The combined share of market price support, output and input payments in producer support fell in the last decade from 100% to 79% in 2002-04. Prices received by farmers in 2002-04 were 17% higher than those received in the world market.

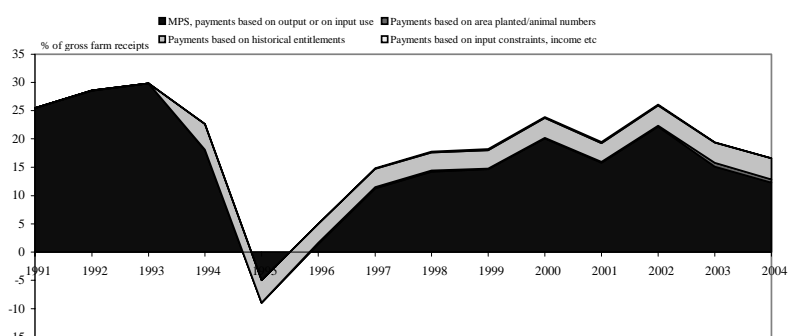
- There has been a significant increase in payments based on historical entitlements due to the growing importance of PROCAMPO payments since 1994. PROCAMPO accounts for 18% of producer support in 2002-04.

- According to the %CSE, the implicit tax on consumers was 15% in 2002-04 as compared to 23% in 1991-93.

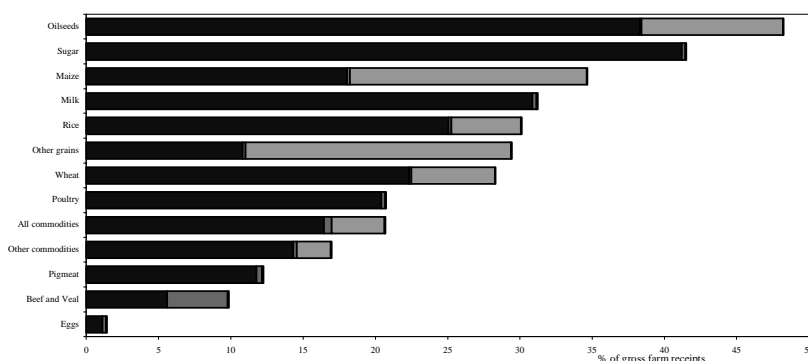
- Support for general services provided to agriculture represents 10% of TSE in both 1991-93 and 2002-04. Total support to agriculture as a per cent of GDP has fallen from 3.0% in 1991-93 to 1.2% in 2002-04, close to the OECD average.

Agriculture accounts for 4% of GDP (8% in 1990) and 16% of total employment (27% in 1990). Mexico is undergoing profound economic adjustment characterised by the migration of labour out of agriculture, consistent with its stage of development. Mexico exports mainly coffee, sugar, fruits and vegetables, and imports mainly grains, meats and milk powder.

Producer Support Estimate (PSE) Level and composition over time...



... by commodity, 2002-04 average



... and reform progress

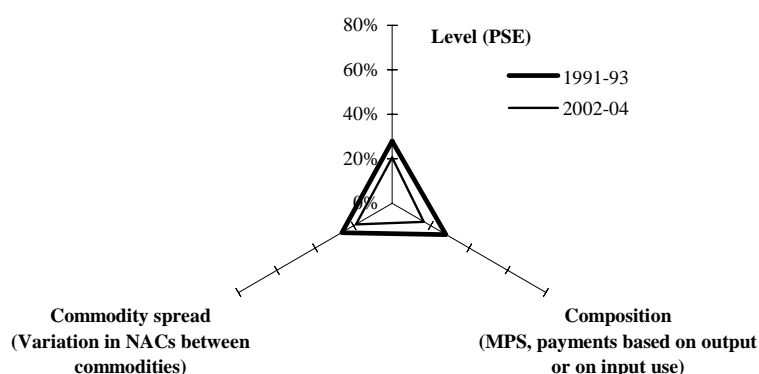


Table 2.8. Mexico: Estimates of support to agriculture

(MXN million)	1991-93	2002-04	2002	2003	2004p
Total value of production (at farm gate)	86 539	326 460	305 380	336 553	337 447
<i>of which share of MPS commodities (%)</i>	<i>69</i>	<i>68</i>	<i>68</i>	<i>67</i>	<i>69</i>
Total value of consumption (at farm gate)	80 628	319 423	297 398	329 287	331 584
Producer Support Estimate (PSE)	25 435	73 356	86 564	71 868	61 638
Market Price Support (MPS)	21 199	41 944	60 141	38 256	27 436
<i>of which MPS commodities</i>	<i>14 565</i>	<i>28 489</i>	<i>40 752</i>	<i>25 686</i>	<i>19 028</i>
Payments based on output	160	3 053	3 270	2 774	3 114
Payments based on area planted/animal numbers	10	1 878	667	2 679	2 287
Payments based on historical entitlements	0	12 924	11 851	13 111	13 812
Payments based on input use	4 066	13 312	10 099	14 848	14 989
Payments based on input constraints	0	0	0	0	0
Payments based on overall farming income	0	245	536	200	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	28	21	26	19	17
Producer NPC	1.35	1.17	1.27	1.14	1.09
Producer NAC	1.39	1.26	1.35	1.24	1.20
General Services Support Estimate (GSSE)	3 407	8 195	6 074	9 474	9 036
Research and development	339	1 510	1 373	1 585	1 573
Agricultural schools	550	1 938	1 735	1 944	2 134
Inspection services	0	1 231	1 158	1 378	1 156
Infrastructure	809	1 005	783	1 264	968
Marketing and promotion	322	2 397	864	3 213	3 115
Public stockholding	1 210	0	0	0	0
Miscellaneous	177	113	161	89	90
GSSE as a share of TSE (%)	10.2	10.0	6.5	11.6	12.7
Consumer Support Estimate (CSE)	-17 632	-47 310	-65 563	-44 809	-31 559
Transfers to producers from consumers	-22 139	-42 096	-62 000	-39 004	-25 284
Other transfers from consumers	-770	-6 744	-6 417	-6 665	-7 149
Transfers to consumers from taxpayers	4 666	564	925	367	400
Excess feed cost	612	966	1 930	493	474
Percentage CSE	-23	-15	-22	-14	-10
Consumer NPC	1.40	1.19	1.30	1.16	1.11
Consumer NAC	1.30	1.18	1.28	1.16	1.11
Total Support Estimate (TSE)	33 507	82 115	93 562	81 709	71 074
Transfers from consumers	22 909	48 840	68 417	45 669	32 433
Transfers from taxpayers	11 369	40 019	31 562	42 705	45 790
Budget revenues	-770	-6 744	-6 417	-6 665	-7 149
Percentage TSE (expressed as share of GDP)	3.02	1.20	1.49	1.21	0.95
GDP deflator 1991-93 = 100	100	458	430	458	485

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

Market price support is net of producer levies and excess feed costs.

MPS commodities for Mexico are: wheat, maize, other grains, coffee beans, tomatoes, rice, oilseeds, sugar, milk, beef and veal, pigmeat, poultry and eggs.

Source: OECD, PSE/CSE database 2005.