



# **CHANGES IN MEXICAN AGRICULTURAL POLICIES 2001 - 2003**

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## PLANNING OF AGRICULTURAL AND RURAL DEVELOPMENT POLICIES IN MEXICO

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- As mandated by the “Law of Planning”, a new government must publish its “National Development Plan” during its first year in office, as well as specific Plans for all main areas of public policy.
- The “Program for Agriculture, Livestock, Rural Development, Fisheries and Nutrition 2001 - 2006” contains the main policy guidelines of the Administration.
- There is no doubt with respect to the new policy approach of the administration: “Subsidies to production and marketing should be radically transformed in order to become an additional element to foster rural capitalization and investment”.
- Approval of the “Law for Sustainable Rural Development”: To seek consistency between multiple policy goals, multiple policy instruments and multiple government executive branches and to guarantee consistent policies over time.

# **“LAW FOR SUSTAINABLE RURAL DEVELOPMENT” A MULTI-FUNCTIONAL ROLE FOR AGRICULTURE**

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- **The Law assigns several roles for agriculture:**
  - a) **To improve welfare in rural areas, considering producers, rural workers and other actors of the rural society;**
  - b) **To reduce regional disparities in economic development;**
  - c) **To foster agricultural production in order to improve “food security” conditions;**
  - d) **To preserve the base of natural resources and biodiversity by means of its sustainable use; and**
  - e) **To recognize the economic, environmental, social and cultural dimensions of agriculture.**
- **The Law provides to the Secretary of Agriculture greater executive faculties to coordinate policies and programs related with rural development.**
- **Large role for state governments and producer organizations in the design of public policies.**

# **“AGRICULTURAL AND FISHERIES POLICY ACTIONS FOR SECTORIAL STRENGTHENING” (“BLINDAJE AGROALIMENTARIO”)**

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- Several factors triggered the need for a more detailed Action Plan for Agriculture and Rural Development in the second half of 2002:
  - a) The approval in the U.S. of the “Agricultural Security and Rural Investment Act 2002” and
  - b) The completion in January 1st 2003 of the transition period of ten years considered in NAFTA for most agricultural products .
  - c) Mid - term federal elections in July 2003.
  - d) Perception of inadequate public policies.

## MAIN POLICY DIRECTIVES "BLINDAJE AGROALIMENTARIO"

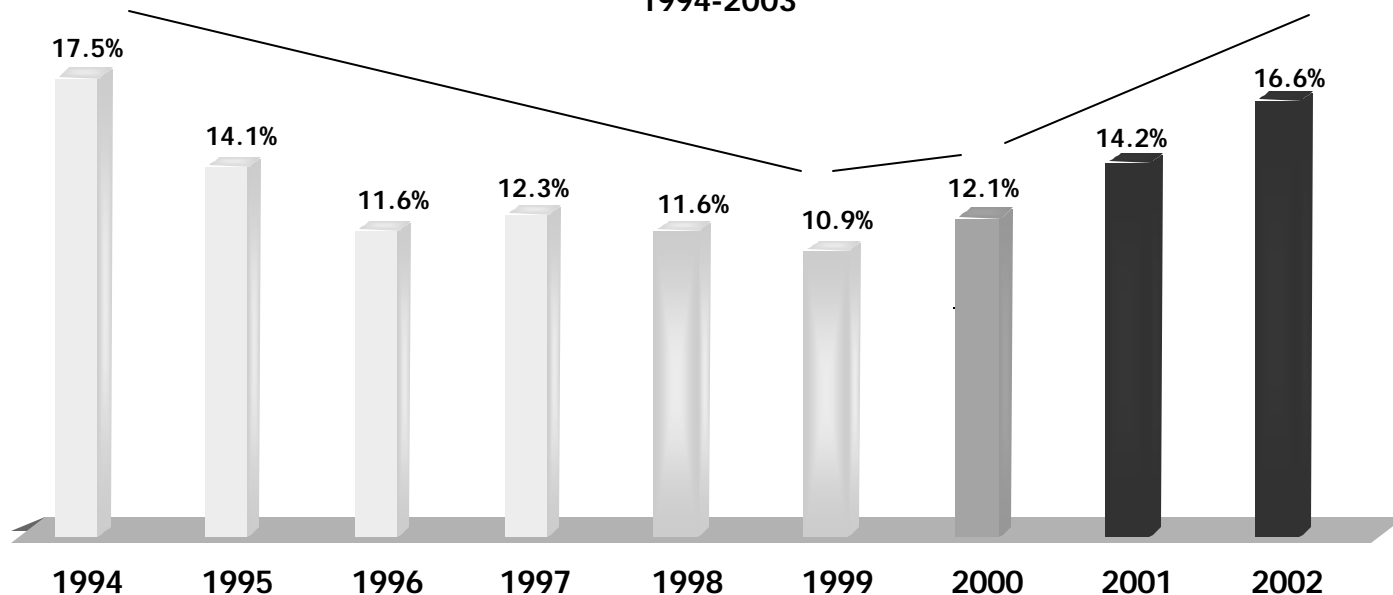
TRADE POLICY	AG-POLICY	PERCEPTIONS
<ul style="list-style-type: none"> <li>• Shorter terms for deciding CVD cases</li> </ul>	<ul style="list-style-type: none"> <li>• Access to credit.</li> <li>• Sustitution of Banrural by the new "Financiera Rural".</li> </ul>	<ul style="list-style-type: none"> <li>• Great degree of consensus with main producer organizations</li> </ul>
<ul style="list-style-type: none"> <li>• Enforcement of labeling and packing information</li> </ul>	<ul style="list-style-type: none"> <li>• Predictability in support levels for main crops for five years. Scheme of target incomes per ton, similar as in the US but at higher levels</li> </ul>	<ul style="list-style-type: none"> <li>• Discomfort with the announced support levels for main crops and with the concept of target incomes</li> </ul>
<ul style="list-style-type: none"> <li>• Greater harmonization of grades and standards among NAFTA partners</li> </ul>	<ul style="list-style-type: none"> <li>• Similar cost for main inputs in NAFTA area</li> </ul>	<ul style="list-style-type: none"> <li>• Delusion with the proposal of the Executive for the budget 2003</li> </ul>

# "THE BUDGET FOR RURAL SUSTAINABLE DEVELOPMENT"

BUDGET OF SAGARPA IN REAL TERMS 1995-2003 (Thousand of pesos, base 2003)										
TOTAL BUDGET	1994	1995	1995	1997	1998	1999	2000	2001	2002	2003
	49,847.9	36,479.5	34,108.0	33,940.9	32,057.9	27,094.8	29,036.1	35,793.9	37,181.3	41,109.3

Source: Cuenta de la Hacienda Pública Federal (Data from 1995 to 2001) and Presupuesto de Egresos de la Federación (Data 2002 and 2003).  
Deflated with the Index of National Consumer Prices, Banxico, with an expected inflation of 4.5% for 2003.

**CHART 1:  
FEDERAL BUDGET OF SAGARPA / AGRICULTURAL GDP  
1994-2003**



# BUDGET OF THE MAIN PROGRAMS

## 1995 - 2003

- **SAGARPA outlays are concentrated in Income Support and less in Infrastructure and Technology:**

### WHAT SHALL BE THE BEST POLICY MIX?

#### BUDGET OF SAGARPA IN REAL TERMS, 1995-2003

(Millions of pesos, base 2003)

PROGRAM	1995	1996	1997	1998	1999	2000	2001	2002	2003
Alianza para el Campo	0	2,524	2,738	2,870	3,213	3,121	4,470	6,893	6,250
PROCAMPO	16,527	14,261	13,133	12,736	12,057	12,194	12,155	12,979	14,191
Marketing Support	2,082	1,096	3,564	2,895	2,024	3,583	5,920	5,867	6,406
Temporary Employment	0	0	522	604	834	1,037	1,116	1,154	1,800
Sanitary Programs	1,389	229	288	287	300	285	392	361	871
Other Programs	16,483	15,998	13,696	12,666	8,667	8,817	11,740	9,928	11,591
<b>TOTAL</b>	<b>36,480</b>	<b>34,108</b>	<b>33,941</b>	<b>32,058</b>	<b>27,095</b>	<b>29,036</b>	<b>35,794</b>	<b>37,181</b>	<b>41,109</b>

Source: Cuenta de la Hacienda Pública Federal (Data from 1995 to 2001) and Presupuesto de Egresos de la Federación (Data 2002 and 2003).

Deflated with the Index of National Consumer Prices, Banxico, Year Base = 2003.

# TOTAL BUDGET FOR RURAL SUSTAINABLE DEVELOPMENT

## BUDGET FOR RURAL SUSTAINABLE DEVELOPMENT 2003\*/ (million pesos) By Ministry or Public Entity

Ministry or Public Entity	Budget	Share (%)
Ministry of Economy	575.90	0.49
IMSS **/	207.50	0.18
Federal Transfers to Municipalities ***/	10,945.80	9.31
<b>SAGARPA</b>	<b>41,109.30</b>	<b>34.95</b>
Ministry of Health	6,829.40	5.81
Ministry of Communications and Transport	1,092.30	0.93
Ministry of Social Development	15,573.90	13.24
Ministry of Natural Resources	8,976.60	7.63
Ministry of Education	17,554.40	14.92
Ministry of Finance	10,310.30	8.77
Ministry of Agrarian Reform	3,565.50	3.03
Ministry of Labor	865.90	0.74
Ministry of Tourism	16.40	0.01
<b>TOTAL</b>	<b>117,623.20</b>	<b>100.00</b>

\*/ Preliminary data.

\*\*/ Instituto Mexicano del Seguro Social.

\*\*\*/ Ramo 33 of Federal Budget.

- SAGARPA operates only 34.9% of total budget for rural sustainable development, followed by SEP (14.9%), SEDESOL (13.2%), SHCP (8.8%) and SEMARNAT (7.6%).
- Critic question is the challenge to coordinate the efforts of so many public entities to achieve consistency policy is enormous.



## CHANGES IN PROCAMPO PROGRAM

- Farmers with an eligible area of less than one hectare now receive the corresponding payment to one whole hectare.
- The requirement to devote eligible land to productive uses was abolished for farmers with production units of less than five hectares.
- In 2001, the payment systems to producers changed gradually: instead of a bank check, payments started to be done through debit credit cards, reducing transaction cost and simplifying administrative procedures.
- To improve equality, it was announced that PROCAMPO payments will be higher for those producers with less than five hectares in non irrigated areas.

PROCAMPO PAYMENTS PER HECTARE , IN REAL TERMS  
(Pesos, Base year = 2003)

Season	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
										Less than 5 hectares	More than 5 hectares
OI */	1,256	1,127	923	842	834	805	832	859	866	1,030	950
PV **/	1,332	1,240	1,015	967	939	911	914	916	912	1,030	950

Source: ASERCA.

\*/ Autumm - Winter Cropping Season.

\*\*/ Spring - Summer Cropping Season.

**PROCAMPO has failed to diversify the structure of production, since price support failed to be phased out as originally planned.**

## MARKETING SUPPORT AND OTHER DIRECT PAYMENTS

- All producers included in the program receive directly from the government their corresponding subsidies. In the case of most crops, the government establishes a fixed amount of subsidy on a per ton basis, considering expected prices during the marketing season.

DISTRIBUTION OF THE BUDGET FOR MARKETING ASSISTANCE \*/, 2002  
(Pesos and percentage)

Programs	Budget (pesos)	Distribution (%)
Direct Marketing Support	3,269,903,466.44	85.7
Complementary Programs	546,024,093.40	14.3
Maritime Transport	121,658,027.65	3.2
Export Programs	101,628,825.21	2.7
Livestock Purchase	127,996,573.08	3.4
Stock Financing	92,449,417.46	2.4
Contract Agriculture **/	87,741,250.00	2.3
Remote Areas***/	10,200,000.00	0.3
Freight	4,350,000.00	0.1
<b>Total</b>	<b>3,815,927,559.84</b>	<b>100.00</b>

Source: ASERCA.

\*/ Programa de Apoyos a la Comercialización y Desarrollo de Mercados.

\*\*/ In regions with surpluses, the producer can establish a contract with buyers in the same region to promote diversification of the production.

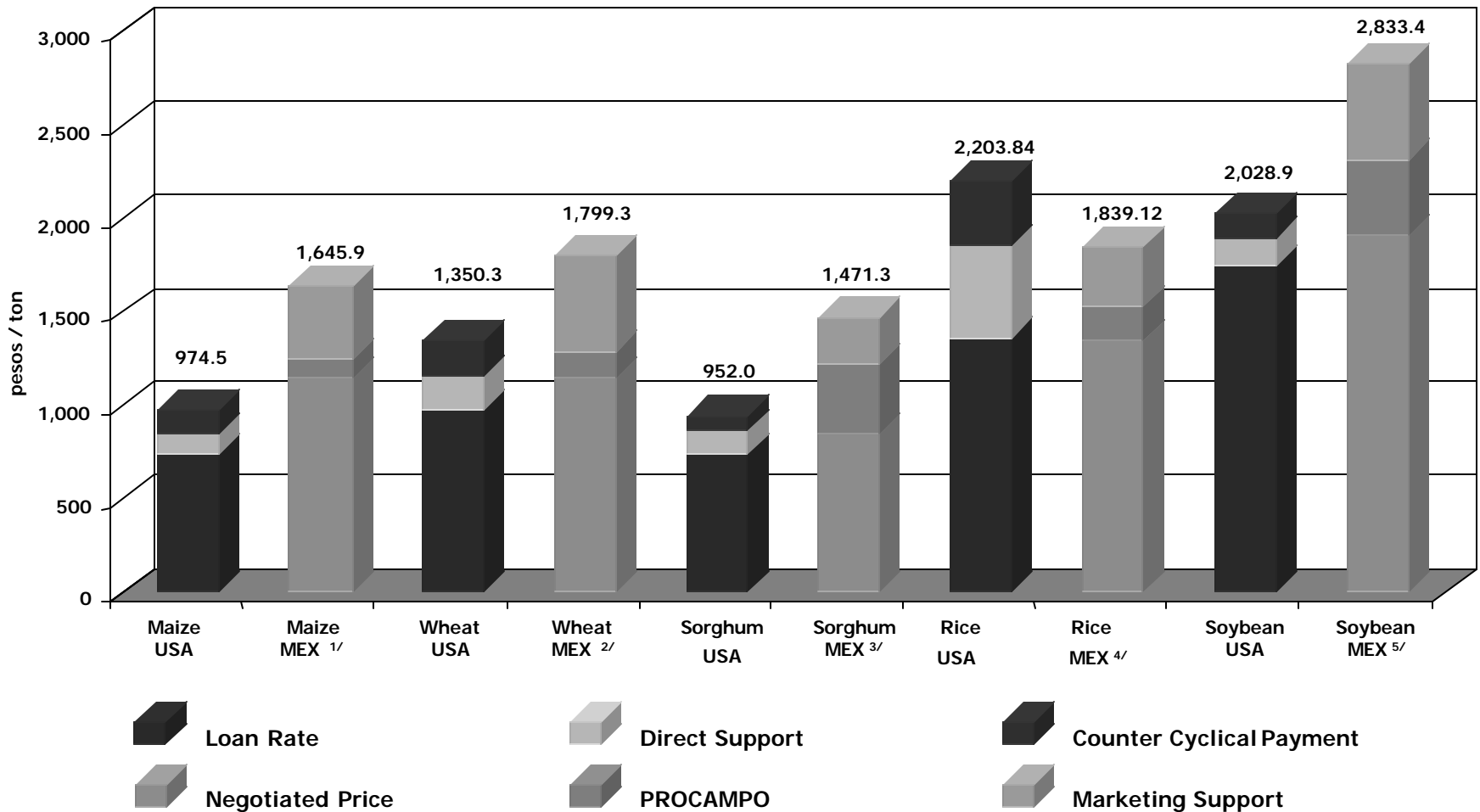
\*\*\*/ The support to transport production from remote areas without infrastructure.

Note: Preliminary data, February 2003. Excludes mainly subsidies for price hedges and the marketing program for beans. Therefore this figure does not match with data included in Table 2.

- Planting decisions are based on expectations of price support granted in the past.
- To enhance the marketing process, the government has made use of complementary programs (14.3% of total budget for marketing assistance).
- Despite the changes made, the production has concentrated even further in maize and wheat, specially in the Northwest and Chiapas.

# SAFETY INCOME IN USA AND MEXICO

## SAFETY INCOME IN USA AND MEXICO BY TON FOR SELECTED CROPS AUTUMN – WINTER AGRICULTURAL SEASON 2001/2002 (WITHOUT CONSIDER STRUCTURAL DIFFERENCES)



1/ White Maize in Sinaloa, Yield OI 2000/2001 = 8.636 ton/ha. Agreed Price for OI 2001/2002.

2/ Wheat Yield in Sonora OI 2000/2001 = 5.950 ton/ha. Agreed Price for OI 2001/2002.

3/ Sorghum Yield in Tamaulipas OI 2000/2002 = 2.233 ton/ha. The prices for sorghum is the estimate producer price for OI 2001/2002.

4/ Rice in Veracruz, the producer price is the average of non irrigated and irrigated areas registered by SAGARPA Delegations in OI 2000/2001, the average yield = 4.572 ton/ha.

5/ Soybean in Sinaloa, the producer price is the average register by SAGARPA Delegations in OI 2000/2001, the average yield = 2.003 ton/ha.

Source: ASERCA, USDA y SIAP.

# COMPETITIVE ACCESS TO AGRICULTURAL INPUTS

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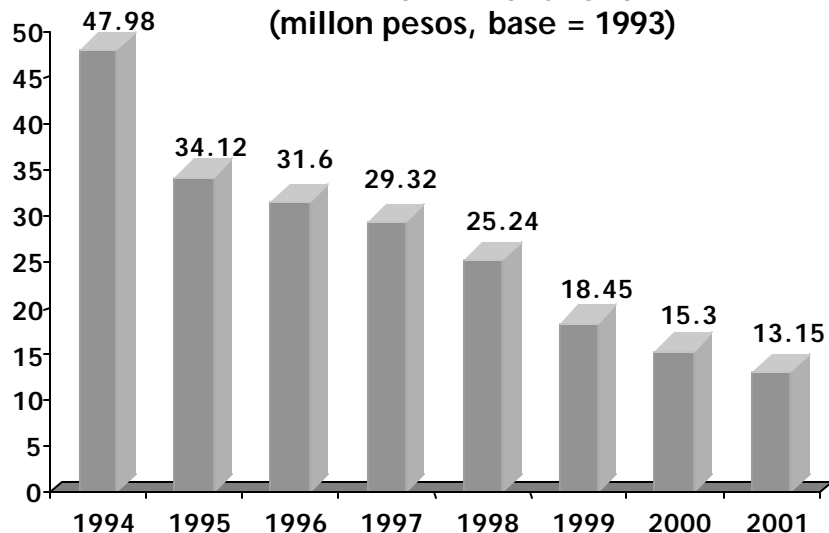
- Agricultural policy seeks to enhance competitiveness by offering producers similar costs for the main inputs as those prevailing in NAFTA countries:

The policy package for 2003 considers:

- Tax exemption for diesel for use in agriculture (up to a maximum limit).
- Reduction of electricity costs for irrigation, according to consumption levels, dropping to 0.3 pesos/kw (for less than 5,000 kw/hour) and to \$0.398 pesos for consumption levels higher than 5,000 kw/hour.
- Fixed payment for each ton of feed-grain purchased by livestock producers under contracting schemes with grain producers.

# REFORMS TO RURAL FINANCE INSTITUTIONS

CREDIT TO AGRICULTURAL, FORESTRY  
AND FISHERY SECTORS  
(millon pesos, base = 1993)

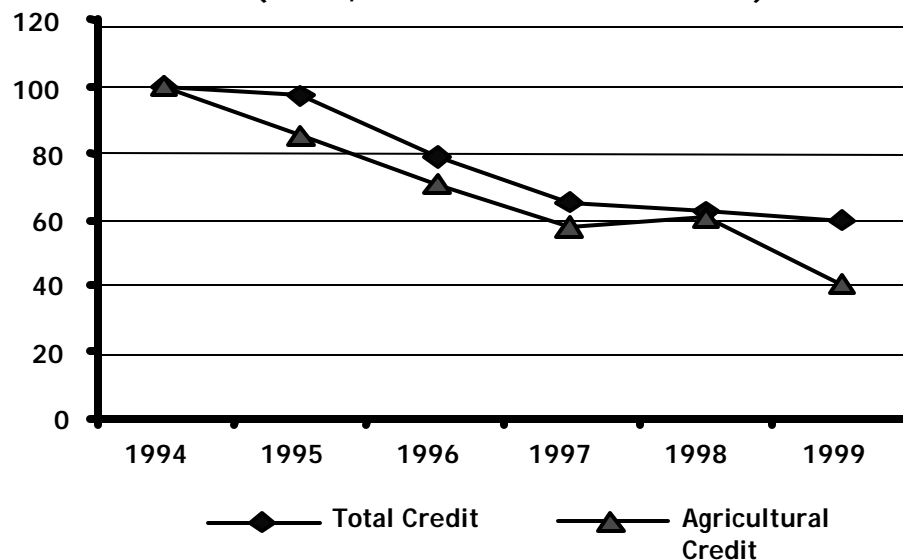


Source: Banco de México.

- The biggest challenge is to effectively promote larger number of rural financial intermediaries, which are lacking in many areas of the country, specially in the least developed. Moreover, some of these intermediaries have shown in the past a poor financial performance. It is clear that the new model for rural finance will need some time before it operates as desired.

- The “Financiera Rural” is organized under a model similar to FIRA. In the short term, it will continue to grant credit to producers, but the aim is to grant credit increasingly to smaller financial intermediaries in the rural sector, such as credit unions or “cajas de ahorro”.

TOTAL CREDIT AND CREDIT TO AGRICULTURE  
(Index, Base December 1994=100)



Source: Banco de México and FIRA.

- In April 28th, 2003 it is expected that the federal government, state governments and producer organizations will sign the so called “National Agreement for Rural Development”.
- Details are still being worked out. Presumably the Agreement will include:
  - ✓ An Emergency Fund financed with extra oil revenues.
  - ✓ Commitments to enact most of the measures established in the “Blindaje Agroalimentario”.
  - ✓ A wide variety of actions targeted to rural workers.
  - ✓ The government has resisted pressures from producers for a revision in NAFTA provisions for maize and beans.