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Mexico's New Agricultural Policy Is Mexico's Old Agricultural Policy (Part I)

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This is the first of three posts where I comment on Mexico's "new" agricultural policy. In particular, in the first post I discuss how Mexico's "mainline" subsidy programs have fared, in terms of funding, in the first year Andrés Manuel López Obrador (known as AMLO, for his initials in Spanish) has been in power. In the second post I discuss the likely future effects of "guaranteed prices", AMLO's flagship program in agriculture.

One of AMLO's signature campaign promises of was to achieve self-sufficiency in key agricultural products; namely, corn, wheat, beans, rice and milk. Upon taking office, AMLO has followed through on this campaign promise. On January 18, 2019, a decree was published in Mexico's Official Gazette creating a government agency, Seguridad Alimentaria Mexicana or SEGALMEX, whose *raison d'être* will be to "coordinate the purchase of foodstuffs at guaranteed prices, to the benefit of national producers ...".

Guaranteed prices is a policy that was in place from 1965 through 1998. Under this scheme, a state-trading agency (known as CONASUPO) bought, at a government-set price (i.e., the guaranteed price), a portion of the targeted crops and private buyers were forced to buy, at the guaranteed price too, the remainder of the targeted crops as a condition for obtaining import permits.^[1] Thus, the purpose of the guaranteed prices scheme was not to achieve self-sufficiency in the targeted crops but rather to ensure that all domestic production was bought at government-set prices, which were substantially higher than world prices, so as to allow local growers to cover their production costs and earn on top of that a profit. Although under the guaranteed prices scheme imports remained present in the market, this policy did depress import volumes, by boosting local production (since domestic producers sold all of their output at higher-than-market prices and restraining demand (since domestic consumers, when purchasing local production, faced higher-than-market prices).

As part of the economic reforms the Mexican economy underwent from the late 1980s to the late 1990s, the guaranteed prices scheme was replaced by direct payments to agricultural producers. There are two main programs involving such payments. Both programs have been retained by AMLO, albeit under new names. The first one, known originally as PROCAMPO, subsequently as PROAGRO and now as Producción Para el Bienestar, is notified by Mexico to the World Trade Organization as a "green box" subsidy, because payments are made on a per hectare basis, irrespective of production volumes. The second one, known originally as Target Income and Marketing Support ("Apoyo al Ingreso Objetivo y a la Comercialización"), subsequently as

Marketing Incentives (“Incentivos a la Comercialización”) and now as Socially-Oriented and Sustainable Agro-Markets (“Agromercados Sociales y Sustentables”), involves payments, per marketed ton, equivalent to the difference between a target price and the market price.[2] This program is similar to the now defunct U.S. “counter-cyclical payments”. Because the payments under the latter program are not production-neutral (since the sum received is a function of the tons produced and marketed), they are notified by Mexico as part of its Aggregate Measure of Support (or AMS).

According to recent data, most of the payments based on hectares go to corn.[3] By contrast, the marketing incentives are much more spread out, although the bulk goes to corn, sorghum, coffee and wheat.[4]

Crucially, in the Peña Nieto administration the payments based on hectares dropped to a historical low in constant prices and have continued falling in the first year of the AMLO administration. See Table I.

Table I: Trends in Mexican Agricultural Subsidies via Payments Based on Hectares: 1995-2019

	Average Annual Payments Per Hectare, Own Calculations, Current Million Pesos ^a	Average Annual Payments Per Hectare, Own Calculations, Million 1991 Pesos ^b	Average Annual Payments Per Hectare, Own Calculations, Current Million Dollars ^c	Average Annual Payments Per Hectare, Mexico’s WTO Notifications, Million 1991 Pesos ^d
Zedillo (1995-2000)	8,565	2,505	951	2,494
Fox (2001-2006)	13,624	2,599	1,285	2,506
Calderón (2007-2012)	14,653	2,177	1,155	2,233
Peña Nieto (2013-2018)	12,121	1,444	775	1,410
AMLO (2019)	9,000	915	467	

Notes:

^a Subsidy data were unavailable for 1995. Subsidy data in current pesos for 1996-99: *Trade Policy Review – Mexico: Report by the Secretariat*, WTO document WT/TPR/S/97 (March 15, 2002), at page 86, Table IV.2. Subsidy data in current pesos for 2000-2011: *Estrategia Programática*, Federal Expenditure Budget. Subsidy data in current pesos for 2012-2019: Federal Expenditure Budget as published in the Official Gazette. Since subsidy data were unavailable for 1995, the average figure in current pesos, 1991 pesos and U.S. dollars reported for 1995-2000 actually corresponds to 1996-2000.

^b Subsidy data in current pesos were converted to 1991 pesos by using the consumer price index (CPI). This is the approach used by Mexico in its WTO notifications. The CPI for 1991-2018 was taken from International Financial Statistics, International Monetary Fund, rebased to 1991.

The CPI for 2019 was proxied by the average inflation rate forecast for 2019, according to the January 2019 survey of analysts' expectations published by *Banco de México*.

^c Subsidy data in current pesos were converted to U.S. dollars by using the (nominal) end-of-period yearly exchange rates for 1996-2018 as reported in International Financial Statistics, International Monetary Fund. The yearly exchange rate for 2019 was proxied by the exchange rate for February 13, 2019.

^d WTO notifications by Mexico under the Agreement on Agriculture for the period 1995-2017. For instance, G/AG/N/MEX/41 (September 14, 2018), at page 3, Supporting Table DS:1. Since data for 2018 has not been notified yet, the average figure reported for 2013-2018 actually corresponds to 2013-2017.

Subsidy data in current pesos for different years within the period concerned are not comparable because they reflect the effect of inflation. In dollar terms, average annual payments per hectare fell from a high of 1.29 billion in the Fox administration to lows of 775 million in the Peña Nieto administration and 467 million in the first year of the AMLO administration. But this comparison is not appropriate either, because dollar data reflect the depreciation undergone by the Mexican peso over the period concerned. Precisely to avoid these problems, Mexico uses constant pesos (1991 pesos, in particular) to report subsidy data in its WTO notifications under the Agreement on Agriculture. In 1991 pesos, average annual payments per hectare fell from a high of 2.6 billion in the Fox administration to lows of 1.44 billion in the Peña Nieto administration and 915 million in the first year of the AMLO administration. Importantly, Mexico's own notifications to the WTO show the exact same trend. While Mexico will not notify until next year the amount spent in 2019 in payments per hectare, the 9 billion current pesos included in the 2019 budget for such purposes convert into 915 million, in 1991 pesos, which is substantially lower than the average annual payments per hectare in the Peña Nieto administration (1.41 billion, in 1991 pesos), according to Mexico's WTO notifications.

Similarly, in constant pesos the marketing incentives are now at one of their lowest levels. See Table II.

Table II: Trends in Mexican Agricultural Subsidies via Marketing Incentives: 1995-2019

	Average Annual Marketing Incentives, Own Calculations, Current Million Pesos ^a	Average Annual Marketing Incentives, Own Calculations, Million 1991 Pesos ^b	Average Annual Marketing Incentives, Own Calculations, Current Million Dollars ^c
Zedillo (1995-2000)	1,922	531	210
Fox (2001-2006)	5,196	979	492
Calderón (2007-2012)	8,971	1,326	700
Peña Nieto (2013-2018)	9,753	1,148	564
AMLO (2019)	6,708	682	348

Notes:

^a Subsidy data were unavailable for 1995. Subsidy data in current pesos for 1996-99: *Trade Policy Review – Mexico: Report by the Secretariat*, WTO document WT/TPR/S/97 (March 15, 2002), at page 88, Table IV.4. Subsidy data in current pesos for 2000-2019: Same sources as in Table I. Since subsidy data were unavailable for 1995, the average figure in current pesos, 1991 pesos and U.S. dollars reported for 1995-2000 actually corresponds to 1996-2000.

^b Same methodology as in Table I.

^c Same methodology as in Table I.

In particular, in 1991 pesos average annual marketing incentives reached a high of 1.3 billion in the Calderón administration; in the first year of the AMLO administration, they dropped to 682 million. Average annual marketing incentives were only lower than that in the Zedillo administration.[5]

To some extent, that both the payments per hectare and the marketing incentives are at a low is the result of AMLO's preference to redistribute spending in order to find funds to reinstate the guaranteed prices scheme instead of ramping up funding for the payments per hectare and the marketing incentives. In the second post I discuss the likely future effects of the “guaranteed prices” program.

[1] It is quite telling that the individual who has been appointed head of SEGALMEX is the same individual who last headed CONASUPO twenty years ago.

[2] See, for instance, *Trade Policy Review – Mexico: Report by the Secretariat*, WTO document WT/TPR/S/352 (June 23, 2017), at page 105, para. 4.28, and *Trade Policy Review – Mexico: Report by the Secretariat*, WTO document WT/TPR/S/279 (February 27, 2013), at page 124, para. 4.64.

[3] See, *Programa de Fomento a la Agricultura – Componente PROAGRO Productivo: Cuarto Informe Trimestral de Resultados 2015*, SAGARPA, Subsecretaría de Agricultura, at page 53.

[4] See, for instance, *Notification by Mexico – WTO Committee on Agriculture*, WTO document G/AG/N/MEX/36 (February 12, 2018), at page 6, Table DS:4.

[5] Although in its WTO notifications Mexico reports the subsidies that enter into the calculation of its AMS, the information provided in this respect does not separately identify for all products subsidies consisting of marketing incentives. For this reason, Table II does not include a column referring to data as per the WTO notifications.

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