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

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This is the third of three posts where I comment on Mexico's "new" agricultural policy. For Part I click here, for Part II click here.

In this post I discuss at length what might be the market effects of price support through the guaranteed prices program.

A key factor as to whether guaranteed prices can substantially boost planting and production, thus displacing imports, is whether all the growers can earn the guaranteed price in respect of all of their output. Setting aside for a moment the fact that the program includes some built-in limitations, the amount allocated to pay for government purchases can be insignificant as compared to the value of current production at the guaranteed price. This is so for the simple reason that the value of some crops (corn, for example) is several multiples greater than the value of others (beans, for instance). Table I indicates the proportion of current production valued at the guaranteed price that could be bought by the government if the entirety of the funds concerned were applied in respect of an individual targeted product. Table I does not refer to either wheat or rice because, as explained in the previous post, SEGALMEX will not buy either one of these two products but will provide instead a direct cash transfer to growers equivalent to the difference between the guaranteed price and the market price.

Table I: Funding for Government Purchases vs Value of Current Production at GP

		Panel A		
	2018 Production (Metric Tons)	Production Valued at GP (Current Pesos)	Funding Available for Government Purchases (Current Pesos)	Proportion of Production Valued at GP That Could Be Covered by Government Purchases
White Corn	27,762,481	143,616,000,000	6,000,000,000	4%
Beans	1,183,868	17,166,086,870	6,000,000,000	35%
		Panel B		

	2018 Production (Liters)	Production Valued at GP (Current Pesos)	Funding Available for Government Purchases (Current Pesos)	Proportion of Production Valued at GP Covered by Government Purchases
Fluid Milk	77,614,511,000	636,438,990,200	1,768,896,132	0.28%

Notes:

Production valued at the guaranteed price equals 2018 production times the guaranteed price, where 2018 production is taken as a conservative estimate of 2019 production.

Sources:

2018 production of white corn and beans: PSD Online, Foreign Agricultural Service, USDA. Fluid milk 2018 production. Servicio de Información Agroalimentaria y Pesquera (SIAP), Secretaría de Agricultura y Desarrollo Rural.

As shown in Table I, even if the entirety of the 6 billion pesos available for SEGALMEX spending were spent solely on purchases of white corn, such purchases would only represent 4% of the value of white corn production at the guaranteed price. Likewise, government purchases of fluid milk (budgeted separately) will account for less than 1% of the value of fluid milk production at the guaranteed price. Because, as regards white corn and fluid milk, the share of production that could benefit from government purchases at guaranteed prices is negligible, output of these two crops cannot be expected to expand significantly pursuant to this program, in spite the claims that such program will lead to self-sufficiency.

By contrast, the price support for wheat and rice to be provided via direct cash transfers will take up, combined, no more than 5% of the 6 billion pesos available to SEGALMEX. See Table II.

Table II: Direct Cash Transfers Relative to Funding Available

		Panel A		
	2018 Production (Metric Tons)	Estimated Direct Cash Transfers (Current Pesos)	Funding Available (Current Pesos)	Proportion
Wheat	3,000,000	244,303,207	6,000,000,000	4%
Rice	254,286	32,957,033	6,000,000,000	1%

Notes:

Estimated direct cash transfers equal 2018 production times the absolute difference between the guaranteed price and the world price (from Table I), where 2018 production is taken as a conservative estimate of 2019 production.

Sources:

2018 production of wheat and rice: PSD Online, Foreign Agricultural Service, USDA. As the rice production figure referred to a milled basis, it was converted to a rough basis.

That the direct cash transfers to producers of wheat and rice can be easily accommodated within the 6 billion pesos available to SEGALMEX means that, in principle, all such producers could earn the guaranteed price in respect of all of their output.

However, in practice this will not be the case because the *Operating Guidelines for the Guaranteed Prices Program* limit the quantities produced by each individual grower that are eligible to receive price support at 100 metric tons of wheat and 120 metric tons of rice. [1] Thus, whether the direct cash transfers significantly boost production, and heavily depress imports (through a substitution effect), will depend on whether most wheat and rice producers produce smaller volumes than the thresholds,[2] whether they will find it feasible to increase yields and or bring additional land into cultivation, and on whether cumulatively they account for the bulk of total production.[3]

Importantly, to the extent that the direct cash transfers do make a meaningful contribution to self-sufficiency, because they result in expanding production and contracting imports, such cash transfers would be susceptible of being challenged at the WTO, on the ground that they are subsidies that cause “serious prejudice” to the interests of the United States, within the meaning of Article 6 of the Agreement of Subsidies and Countervailing Measures. There already is a very long history of successful litigation under this provision.

To sum up, AMLO’s “new” agricultural policy mainly involves redirecting funding from the “mainline” subsidy programs in agriculture (acreage-based payments and marketing support) to the reborn guaranteed prices program. However, the guaranteed prices program that has been resuscitated actually bears little resemblance to the original version and this is due to the fact that the world has changed. Because the Mexican Government now lacks the legal authority to force private buyers to pay guaranteed prices, the reborn guaranteed prices program amounts in reality to a scheme of government purchases. In addition, since SEGALMEX lacks downstream processing plants and has to resell what it buys, the reborn guaranteed prices program in all likelihood will morph into direct cash transfers to producers of the targeted crops, equivalent to the difference between the guaranteed price and the market price, because this is cheaper than buying from producers at the guaranteed price, storing and ultimately reselling to consumers at the market price. This has happened already in respect of wheat and rice. Since marketing support also takes the form of direct cash transfers, an alternative approach to resuscitating guaranteed prices would have been simply to expand funding for marketing support. But in such case it would not have been possible to claim that there is a “new” agricultural policy.

All the guaranteed prices announced for 2019 are substantially higher than world prices. However, as regards corn and fluid milk, the market effects of the guaranteed prices program will not be appreciable, because in these two cases the proportion of production that can benefit from government purchases at guaranteed prices is tiny. By contrast, the funds available to SEGALMEX can easily accommodate the direct cash transfers to be provided to producers of wheat and rice. Whether such direct cash transfers result in substantially increased domestic production, and contracting imports, will be a function of a number of factors. Paradoxically, to the extent that direct cash transfers lead to substantial progress in terms of achieving self-sufficiency, they would become a prime target for litigation at the WTO.

[1] *Operating Guidelines for The Guaranteed Prices Program*, Official Gazette, March 1, 2019, at para. 2.4.

[2] For instance, since in the case of rice the average yield is 6.4 metric tons of rough rice per hectare, any producer harvesting as little as 19 hectares would already produce in excess of the 120 metric tons threshold. By implication, the producers that could significantly expand their output as a result of price support would be those harvesting much less than 19 hectares. By international standards, the farms involved would be very small. By way of illustration, according to 2013 data, the average surface planted with rice in U.S. farms was 250 hectares. See, *U.S. Rice Industry*, Agricultural Resource Management Survey, January 2015, No. 2015-2, National Agricultural Statistics Service, USDA, at page 2.

[3] While producers with large farms will also receive direct cash transfers for up 100 metric tons of wheat and 120 metric tons of rice, these producers will not have an incentive to step up production because if they do so, they will not earn the guaranteed price over the additional production.

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