

## CHANGES IN MEXICAN AGRICULTURAL POLICIES, 2001-2003

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### I. Overview

1. Several changes in agricultural policies in Mexico have taken place during the administration of President Fox, which started in December 2000. For the first time in modern history an opposition party won the Presidential election in July of that year. The new government has shown a new attitude towards agriculture, seeking to the greatest possible extent market oriented policies and is pushing hard to change the attitude of Mexican farmers, in order to foster their entrepreneurial skills. Traditionally most farmers have relied heavily in government guidance for their production and marketing decisions. In contrast, the largest farmer organizations, with strong political ties to the former governing Party, do not share at large the new policy orientations. Moreover, the Fox administration does not hold a majority in Congress. Even though all political parties state that agriculture is one of their main priorities, a common view is lacking. Policy developments during the last two years should be analyzed under the perspective of compromise between the major players involved.

### II. Planning of Agricultural and Rural Development Policies in Mexico

2. 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. It is also mandatory to consult society in the planning process. The “ Program for Agriculture, Livestock, Rural Development, Fisheries and Nutrition 2001-2006” contains the main policy guidelines of the administration.

3. The foreword to this document, written by the Secretary of Agriculture, states clearly that the “main critical issues in the rural sector are the lack of most farmers of an entrepreneurial vision and the need to foster organizations oriented to satisfy the needs of the domestic market and to profit from comparative advantages in foreign markets”. It also emphasizes that due to inefficient arrangements along the value added chain, the share of the primary producer in the price paid by the final consumer is definitely low. There is no doubt with respect to the new policy approach of the new administration: “Subsidies to production and marketing should be radically transformed in order to become an additional element to foster rural capitalization and investment”

4. Early in the administration, a strong debate took place in Congress related to the approval of the “Law for Sustainable Rural Development”. All Parties agreed on the need of legislating for the first time in this area, in order to seek consistency between multiple policy goals, multiple policy instruments and multiple government executive branches and to guarantee consistent policies over time. It was also considered that the role of state and local governments, and producer and farmer organizations, in the federal policy making process should be active and clearly defined.

5. The President vetoed the first version of the Law produced by Congress , since it mandated a great degree of government intervention in agricultural markets. It was possible to follow a fruitful dialogue between Congress and the Executive and finally, the Law was published in December 7<sup>th</sup>, 2001.

6. 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. (Art 5).

7. To achieve these goals, the Law calls for coordinated action in public policy in many areas, including education and training focused at both agricultural and non agricultural income generation and employment , access to social security, health and family planning, housing for rural inhabitants, poverty alleviation, environmental services, and certainty in land tenure, among others (Art. 15).

8. Since actions in those areas fall under the responsibilities of many Ministries, the Law provides to the Secretary of Agriculture greater executive faculties to coordinate policies and programs related with rural development. A Commission was created for this purpose, in which all Ministries and other public entities are present. Another Commission, including government officials and producer organizations, acts as an Advisory Board. The interaction between federal, state, and municipal governments, and producer organizations, must lead to a concrete action plan, the so called “National Concurrent Plan for Rural Sustainable Development” (PEC)<sup>1</sup>. Each year, the Executive must present to Congress previously agreed programs and actions. Final budgetary decisions for each year are an exclusive prerogative of Congress. Multi-year budgets for some projects are considered in the Law as a desirable goal, although current budgetary legislation precludes any government entity from making any commitment that involves resources from any future fiscal year.

9. The “Law for Sustainable Rural Development” sets the stage for better public policies, both in terms of design and effective implementation. Nevertheless, it seems that some time will pass before public and private actors manage to take full advantage of this legislation, as a result of the lack of collective decision making experience in Mexico.

10. Two factors triggered the need for a more detailed Action Plan for Agriculture and Rural Development in the second half of 2002. First, the approval in the U.S. of the “Agricultural Security and Rural Investment Act 2002”. Public perception worldwide –including Mexico - considered this Act as a step backwards in the multilateral efforts to level the field in trade in agricultural products. Second, the completion in January 1st 2003 of the transition period of ten years considered in NAFTA for most agricultural products (with the exception of maize, edible dry beans, milk powder and sugar) called for a balance of costs and benefits for Mexican farmers of this Agreement and also of the effectiveness of current policy programs aimed at smoothing the adjustment process. The Government announced a comprehensive policy package in November 2002, usually referred to as “Blindaje Agroalimentario” but officially labeled as “Agricultural and Fisheries Policy Actions for Sectorial Strengthening”<sup>2</sup>

11. It considers several measures related to trade and agricultural policies, including both administrative and legislative action. In trade policy, this document refers to the need of a more effective framework to face unfair competition from imports, and proposed changes to the “Foreign Trade Law” in order to reduce the maximum time frame in which preliminary and final resolutions in CVD cases must be solved. Reforms to this Law are expected to be enacted soon.

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<sup>1</sup> PEC: Programa Especial Concurrente

<sup>2</sup> Acciones de Política Agroalimentaria para el Fortalecimiento Sectorial.

Moreover, it also calls for changes in the “Law on Grades and Standards”. Under current Law no mandatory quality standards for agricultural products are allowed, and provisions on labeling requirements lack enforceability to a large extent. The document considers that a greater harmonization in grades, standards and labeling regulations in North America is needed to consolidate one single integrated market.

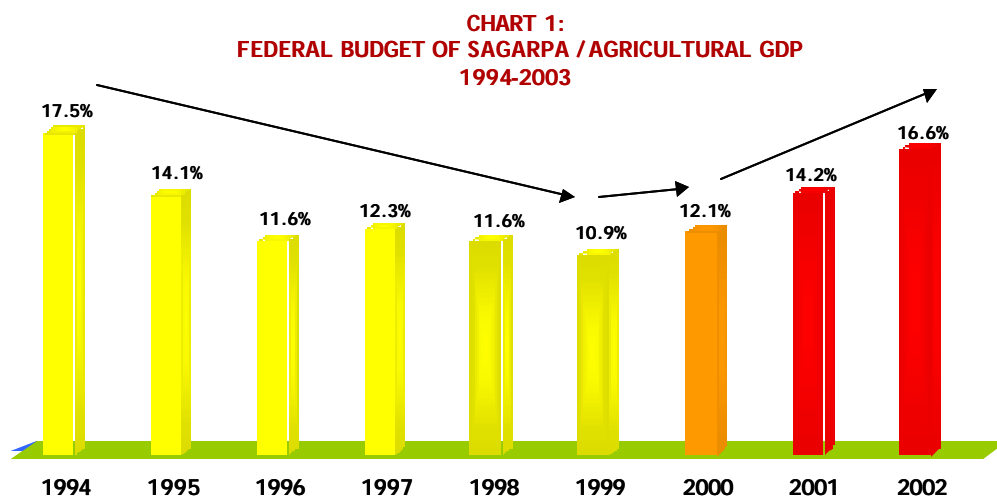
12. In agricultural policy, the document also seeks a greater degree of harmonization in the NAFTA area. It proposes an income safety net for main grains and oilseeds on a multi-year period, along similar lines as enacted in the U.S. Farm Bill. It also puts a great emphasis in the equalization of the terms of access to main inputs in the NAFTA area, specifically energy costs (diesel and electricity) and to the greatest possible extent in interest rates and access to credit.

13. All measures established in the “Blindaje Agroalimentario” were intended to be put into place in 2003. Nevertheless, the severe political pressure from most producer organizations which arose in January 1<sup>st</sup> 2003, seeking among other things to renegotiate the NAFTA, led the Government to establish a so called “Dialogue to Reach a National Agreement for the Countryside”, a process that has not concluded to date. The debate refers not only to trade but also to agricultural and rural development policies.

### III. The Budget for Rural Sustainable Development

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.



Source: SHCP and INEGI

14. The budget of SAGARPA declined sharply in the period 1995-1999, due to the difficult macroeconomic conditions that prevailed. During President Fox administration SAGARPA budget has steadily recovered in real terms (a cumulative increase of 51 per cent from 1999 to 2003). Congress has played a key role in increasing the budget for agriculture, at even higher levels than those proposed by the Administration. For the first time in ten years, the SAGARPA budget will reach a similar level than in 1994, as a percentage of Agricultural GDP.

15. The main programs of SAGARPA are PROCAMPO (with a share of 34.5 per cent in total budget); and Marketing Support with 15.6 per cent. Both programs, operated by ASERCA, account for 50.1 per cent of total budget. One of their main stated objectives is to compensate producers for subsidies granted in foreign countries. "Alianza para el Campo" grants subsidies for in-farm investment and for technology transfer and extension services, and accounts for 15.2 per cent of the budget. In 2003 the budget for sanitary campaigns and inspection more than doubled with respect to the previous year.

**TABLE 2: 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.

16. The total budget for rural sustainable development, as considered in the PEC, amounts to 117,623 million pesos in 2003. SAGARPA<sup>3</sup> operates only 34.9 per cent of all resources, followed by SEP<sup>4</sup> (14.9 per cent) SEDESOL<sup>5</sup> (13.2 per cent), SHCP<sup>6</sup> (8.8 per cent) and SEMARNAT<sup>7</sup> (7.6 per cent). Critics question not only the amount of these budget, taking into account the great shortcomings of Mexican agriculture and rural areas in general, but also the degree in which programs are really correlated with the problems that the Rural Development Law is willing to overcome. The challenge to coordinate the efforts of so many public entities to achieve consistent policy is enormous.

<sup>3</sup> Ministry for Agriculture, Livestock, Rural Development, Fisheries and Nutrition.

<sup>4</sup> Ministry of Education.

<sup>5</sup> Ministry for Social Development.

<sup>6</sup> Ministry of Finance.

<sup>7</sup> Ministry for the Environment and Natural Resources.

**TABLE 3: BUDGET FOR RURAL SUSTAINABLE DEVELOPMENT 2003\*/  
(million pesos)  
By Ministry or Public Entity**

<b>Ministry or Public Entity</b>	<b>Budget</b>	<b>Share (%)</b>
Ministry of Economy	575.90	0.49
IMSS **/	207.50	0.18
Federal Transfers to Municipalities ***/	10,945.80	9.31
SAGARPA	41,109.30	34.95
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.

#### **IV. Policy Changes in Grains and Oilseeds**

##### **a) PROCAMPO**

17. PROCAMPO is one of the main programs for grains and oilseeds (covering maize, beans, wheat, sorghum, barley, rice, soybeans, rapeseed, safflower and cotton). It is paid to farmers on a per hectare basis. Several changes have been introduced. First, farmers with an eligible area of less than one hectare now receive the corresponding payment to one whole hectare. Second, the requirement to devote eligible land to productive uses was abolished for farmers with production units of less than five hectares. It should be remembered that all producers have the chance to keep their lands idle for conservation uses. Third, in 2001 the payment system to producers changed gradually. Instead of a bank check, payments started to be done through debit credit cards, enabling farmers to collect their money at automatic cashiers, reducing thereby transaction costs and simplifying administrative procedures. Fourth, to improve the equality characteristics of the program, it was announced that starting in the Autumn Winter Season 2003, PROCAMPO payments will be higher for those producers with less than five hectares in non irrigated areas. For those producers, the PROCAMPO payment in 2003 will be 30.0 per cent higher in real terms than the level observed in 1999.

18. Most significant of all, Congress approved the “Law for PROCAMPO Capitalization” in December 31, 2001. This Law allows that the payments corresponding to one or more crop season might be front-loaded at once to producers, under the requirement that resources must be devoted to a “productive project” that must be directly related with primary production, food processing, access to inputs, and acquisition of capital goods. For fiscal year 2003, there are 500 millions available for capitalization of productive units under this Law.

**TABLE 4: PROCAMPO PAYMENTS PER HECTARE, IN REAL TERMS  
(Pesos, Base year = 2003)**

Cropping Season	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
										Less than 5 has	More than 5 has
OI */	1,256	1,127	923	842	834	805	832	859	866	1,030	905
PV **/	1,332	1,240	1,015	967	939	911	914	916	912	1,030	

Source: ASERCA  
\*/ Autumn – Winter.  
\*/ Spring – Summer.

### **b) Marketing Support and Other Direct Payments**

19. The “Marketing Support Program and Regional Market Development” grants payments to producers of some crops in surplus areas. Until 2000, the government and producer organizations negotiated a certain price. Then, in a public bid, interested buyers of such crops asked for a certain subsidy in order to commit themselves to buy certain amount of that crop at the negotiated price. This scheme was increasingly criticized, essentially because few buyers of large amounts usually asked for levels of subsidies that were too high, with respect to prevailing marketing costs, and also because it was difficult to guarantee that the negotiated price were effectively paid to the producer. Additionally, the scheme precluded producers from participating in the marketing business (storage and transportation).

20. Therefore the new administration made drastic changes to the system, starting in the Autumn/Winter season 2000/01. Now, all producers benefiting from 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. Buyers pay to producers prevailing market prices. The new system provides producers the right incentives for efficient marketing practices.

21. In the case of wheat and maize in the Northwest, and also maize from Chiapas, the program has worked slightly different, because producers feel uncomfortable selling their crops at prevailing market conditions, which is a factor of uncertainty. So, main buyers and producer organizations negotiate a certain level of prices at which transactions are to be done, taking into account the fixed amount of subsidy per ton that the government is committed to grant to individual producers. Negotiated prices take into account, and reflect in some way prevailing market conditions, although those prices are by its own nature not market clearing prices.

**TABLE 5: DISTRIBUTION OF THE BUDGET FOR MARKETING ASSISTANCE \*/, 2002  
(Pesos and percentage)**

<b>Programs</b>	<b>Budget (pesos)</b>	<b>Distribution (%)</b>
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.

22. Therefore, to enhance the marketing process, the government has made use of complementary programs: a) Export subsidies; b) Subsidies to pay storing and financial costs; c) Subsidies to pay transportation costs to main consumption areas and d) Subsidies to producers in order to sell below the negotiated price grain to the livestock sector of crops, among others. Complementary programs account for 14.3 per cent of the total budget for Marketing Assistance. If the structure of production were more diversified, the budget for complementary programs could be sharply reduced, to the extent in which enlarger absorption of regional supply might be achieve.

23. Despite the changes made to the Marketing Support Program, it has proved extremely difficult to tackle adequately with some of the economic distortions that it generates. The structure of production has not only failed to diversify, but it has concentrated even further in maize and wheat, specially in the Northwest and Chiapas, where the largest commercial surpluses are produced<sup>8</sup>. The net result of having in place simultaneously both a non distorting program (PROCAMPO) and a distorting program (Marketing Support) is a production distorting policy mix.

<sup>8</sup> For 2001, the Government tried to overcome this problem by negotiating with State Governments specific support levels for a wider variety of crops. This approached failed, among other reasons, because it lead to differential support levels for the same crop in different states, and therefore to claims of producers of unfair domestic competition conditions inside the country. For 2002 the Government returned to a centralized approach for determining support levels.

**TABLE 6: DISTRIBUTION OF THE MARKETING ASSISTANCE BUDGET BY STATE, 2002**  
(pesos and percentage)

State	Total Budget	
	(Pesos)	Distribution (%)
Sinaloa	1,480,460,756	38.8
Sonora	939,016,221	24.6
Tamaulipas	302,334,550	7.9
Baja California	238,408,247	6.2
Chihuahua	204,851,086	5.4
Chiapas	141,440,000	3.7
Guanajuato	84,731,389	2.2
Jalisco	76,821,693	2.0
Michoacán	69,137,850	1.8
Otros	278,725,768	7.3
<b>Total Nacional</b>	<b>3,815,927,560</b>	<b>100.0</b>

Source: ASERCA.

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.

**TABLE 7: DISTRIBUTION OF THE MARKETING ASSISTANCE BUDGET BY CROP, 2002**  
(pesos and percentage)

Crop	Budget (pesos)	Distribution (%)
Rice (Palay)	92,000,949.75	2.4
Safflower	44,400,464.00	1.2
Barley (Forage)	4,320,746.66	0.1
Maize	1,772,453,194.41	46.4
Sorghum	299,259,104.25	7.8
Wheat	1,396,853,100.77	36.6
Cotton	206,640,000.00	5.4
<b>Total</b>	<b>3,815,927,559.84</b>	<b>100.0</b>

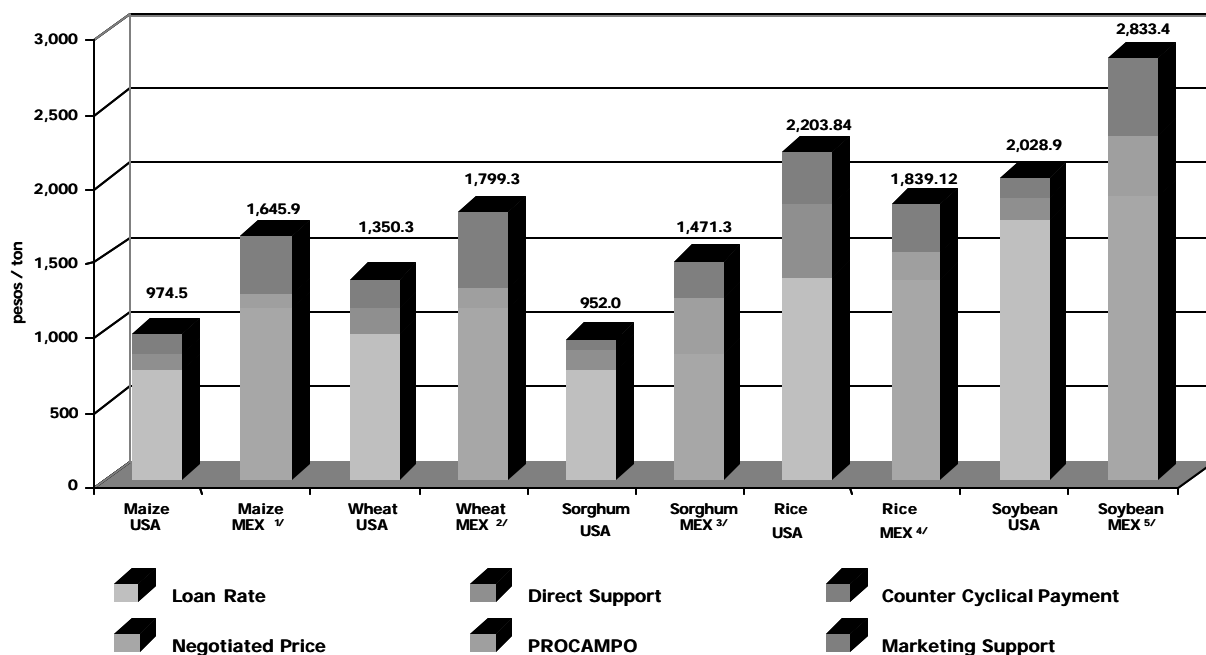
Source: ASERCA.

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.

24. Although in the last years seven crops at least were considered in the marketing assistance program, there was not an *a priori* assurance to producers before the planting season regarding the product coverage of the program and the level of support for each crop. Therefore the less risky decision for producers was planting maize, wheat and sorghum since only those products were consistently supported over the last decade. Prices paid to the producers for supported crops (including subsidies) for maize, wheat and sorghum in the 2000-2002 period were higher than those prevailing in international markets, and even higher than target incomes for U.S. producers. Nevertheless, these comparisons reflect *ex post* support levels. It is also worth recalling that the Marketing Assistance Program benefits only a relatively small number of producers (those with commercial surpluses, which account for an estimated 10 per cent of all producers). Finally, prices paid to producers have declined steadily over the last years, as shown in Table 9.



**CHART 8:  
SAFETY INCOME IN USA AND MEXICO BY TON FOR SELECTED CROPS  
AUTUMM – 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.

**TABLE 9: PRODUCER PRICE AND TARGET INCOME FOR MAIZE, WHEAT AND SORGHUM \*/, 1995-2002  
(pesos / ton)**

Product/year		1995	1996	1997	1998	1999	2000 **/	2001 **/	2002 **/
		Producer price							
Maize Sinaloa <sup>1/</sup>	Current prices	815	1,300	1,290	1,315	1,350	1,536	1,550	1,548
	Real prices 1995 = 100	815	967	796	700	616	640	607	574
Wheat Sonora	Current prices	850	1,789	1,284	1,400	1,380	1,438	1,660	1,660
	Real prices 1995 = 100	850	1,331	792	745	630	599	651	616
Sorghum Tamaulipas	Current prices	712	1,350	875	960	960	1,050	1,080	1,100
	Real prices 1995 = 100	712	1,005	540	511	438	438	423	408

\*/ For maize: Autumm/Winter season price for white maize in Sinaloa; for wheat: Autumm/Winter season price in Sonora; and for sorghum: Autumm/Winter season price in Tamaulipas.

Source: II Informe de Gobierno. Vicente Fox y ASERCA

\*\*/ These prices consider prices at farm gate plus marketing assistance. Does not include PROCAMPO

25. In the “Blindaje Agroalimentario” the government stated that the support program for the grain and oilseed sector should be transformed, mainly by means of reshaping the PROCAMPO and Marketing Support Programs. The intention was to switch from a concept of target price per ton to a concept of target income per ton. Target Incomes would be composed as the sum of the equivalent PROCAMPO payment stated in tons, market incomes and a complementary subsidy to reach the desired level of income. It would cover a wide range of crops, and would be fixed for five years to allow producers to take decisions on a multi-year scenario, trying to overcome in this way the problems associated with the lack of predictability described above, facilitating the diversification of production<sup>9</sup>. The Target Incomes would operate in all areas of the country with surplus commercial production (while the current Marketing Support Program operates only in some regions).

26. Moreover, the document called for individual contracts between the Government and producers to grant subsidies, in line with the objectives of the “Law for Rural Sustainable Development”. Individual contracts would grant more flexibility in agricultural policy design, gaining consistency between all policy instruments and opening the way to establish incentives for individual producers to take decisions in accordance with specific policy objectives, such as a sustainable use of resources, good agricultural practices, contracting of crops between primary producers and consumers, and crop conversion, among others.

27. To date it is not yet defined the way in which the Target Incomes will operate due to the discussions that are taking in place between producer organizations and the Government in the “Dialogue to Reach a National Agreement for the Countryside”.

## **V. Changes in the Livestock Sector**

28. Support policies for the livestock sector have not operated in Mexico, other than border protection and the programs included in “Alianza para el Campo”. Trade liberalization under NAFTA made it necessary to put into place some temporary programs (import tariffs for poultry dropped from 49.4 per cent in 2002 to zero in 2003, and tariffs for pork meat dropped from 20 per cent to zero in the same period). In 2002, a payment of \$110 pesos was granted for each bovine animal slaughtered in federal approved facilities<sup>10</sup> (TIF, which set high standards regarding sanitation), and of \$100 pesos for porks. In 2003 these payments will continue, but at lower rates. The medium term objective is that consumers gain confidence in the “TIF Label” and thereafter would be able to differentiate high value-added products from others, paying accordingly in the marketplace. Additionally, it was announced that the livestock sector will benefit from a rebate in the purchasing cost of feed grains, in order to allow them to face similar costs than its foreign competitors. The details are yet to be defined.

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<sup>9</sup> Products covered by the “Target Income” Program are: maize, wheat, sorghum, safflower, canola, cotton, rice, soybean and triticale.

<sup>10</sup> Rastros Tipo Inspección Federal (TIF).

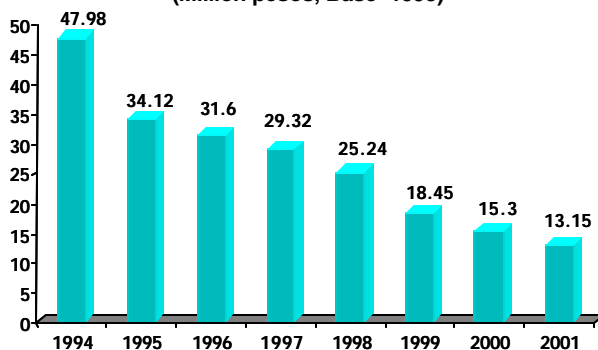
## VI. Competitive Access to Inputs and Services

29. For 2003, the agricultural policy package considers reducing energy costs for Mexican producers to levels similar to those prevailing in the NAFTA Area. Electricity costs for irrigation dropped according to consumption level at the lower to 0.3 pesos/kw for consumption levels of less than 5,000 kw/hour. At the higher end, it dropped to \$0.398 pesos for consumption levels of more than 35,000 kw/hour. A pricing rule for the period 2004-2006 will be announced. Production of diesel in Mexico is taxed by a special duty that applies only to very few goods and services (Impuesto Especial a la Producción y Servicios -IEPS). This tax explains at large the difference between the prices of diesel in Mexico and in the NAFTA countries. It was announced that this tax will be waived for users of diesel in agriculture and livestock, also for fixed consumption levels.

## VII. Reforms to Rural Finance Institutions

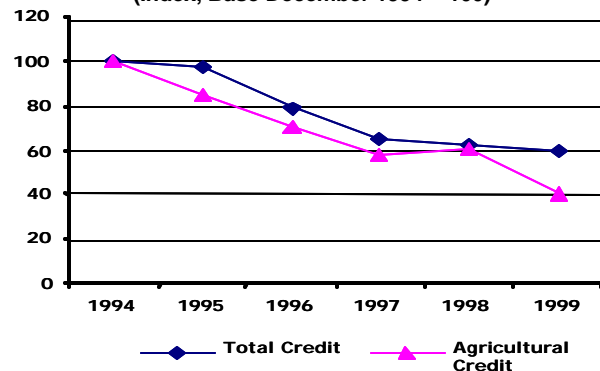
30. It is widely recognized that credit, and not subsidies, should be the main instrument to achieve rural capitalization. Since the early nineties lending to agriculture has fallen steadily, both from commercial banks and public development banks (FIRA and Banrural). In the period 1990 - 2001, total credit to agriculture fell 72.6 per cent in real terms. Agricultural credit during the period decreased more than credit in the overall economy.

**CHART 10: CREDIT TO AGRICULTURE, FISHERIES AND FORESTRY**  
(Million pesos, Base=1993)



Source: Banco de México.

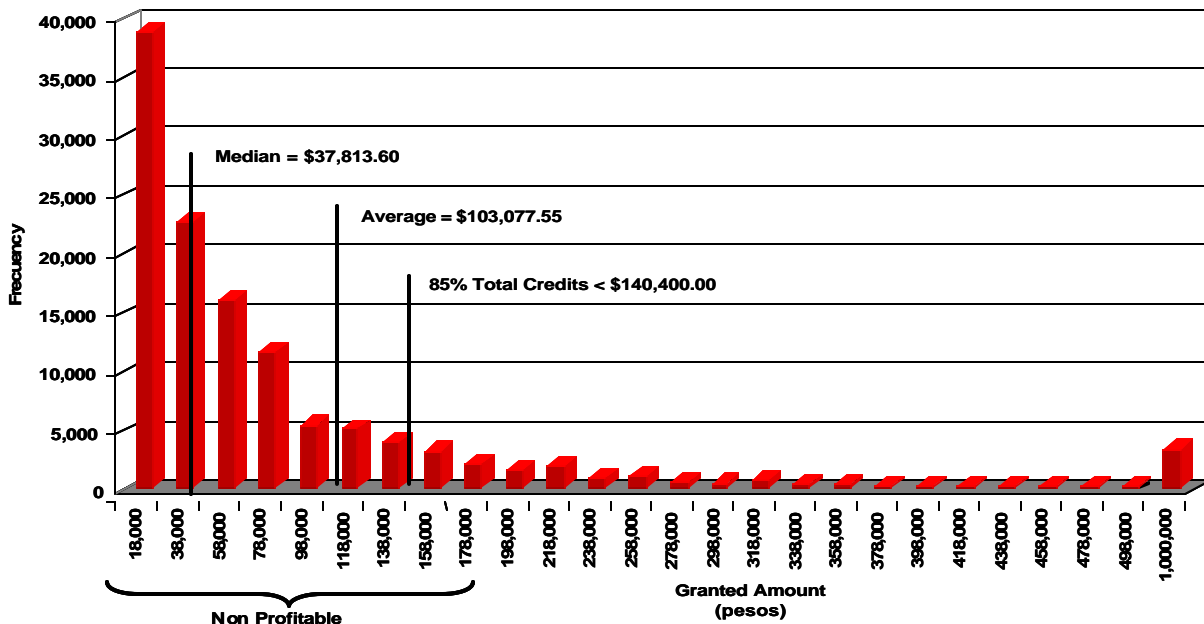
**CHART 11: TOTAL CREDIT AND CREDIT TO AGRICULTURE**  
(Index, Base December 1994 = 100)



Source: Banco de México and FIRA.

31. In December 26, 2002, it was published a Decree creating a new rural lending institution, the "Financiera Rural", and liquidating the former development bank for agriculture, Banrural, by June 30, 2003. Banrural showed severe problems in credit recovery and operational efficiency in general. Most credits were granted in very low amounts, with a high administrative cost per unit of credit. 89 per cent of all credits were so small that BANRURAL could not cover their respective administrative cost.

CHART 12: DISTRIBUTION OF DEFAULT CREDITS IN BANRURAL



Source: Subsecretaría de Fomento a los Agronegocios, SAGARPA.

32. 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”. The “Financiera Rural” has as its main objectives to provide credit, credit guarantees and factoring services directly to producers and to all types of rural financial intermediaries. Its mission also contemplates providing assistance and technical support for producers and to new rural financial intermediaries. The capital of the “Financiera Rural” will amount initially to 17,515 million pesos, which will be complemented with an additional 6,571 million pesos from assets currently belonging to Banrural.

33. The biggest challenge is to effectively promote a 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. Probably the new model for rural finance will need some time before it operates completely as desired.

34. The public agency “AGROASEMEX” played several roles in agricultural insurance: a) providing direct insurance to producers, in competition with private companies and “insurance funds”<sup>11</sup>; b) acting as an administrator of federal subsidies aimed at lowering the cost of insurance and c) providing reinsurance services. Since 2001, AGROASEMEX retired from first floor operations in the insurance market.

<sup>11</sup> Fondos de Aseguramiento.