

Mexico's Agriculture Development: Perspective and Outlook

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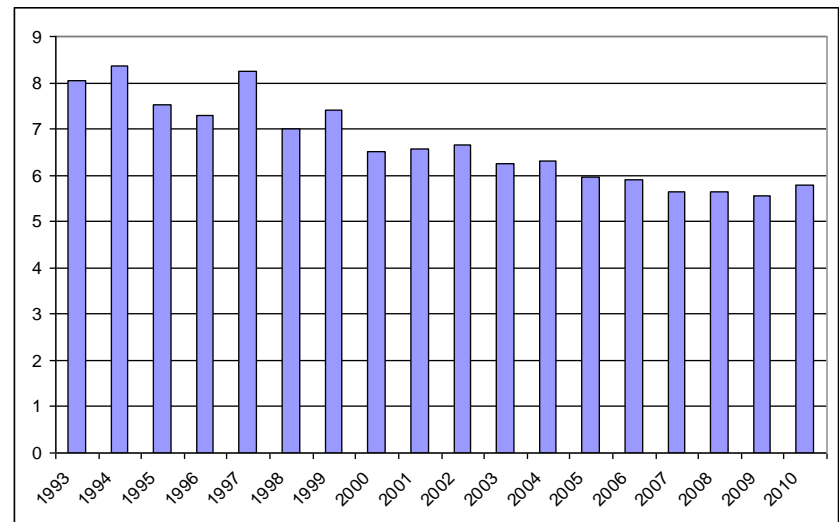
MEXICO'S AGRICULTURE DEVELOPMENT: Perspectives and outlook



Mexican agriculture remains most important but came under pressure...

- Mexico has the largest population in rural areas in the OECD
 - 22 per cent of Mexican's live in rural areas
 - 8 million farmers
- Contribution to GDP fell from 8 per cent in early 1990s to 4 per cent
- Employment in agriculture dropped from 25 per cent in early 1990s to 14 per cent
- Poverty in rural areas is high
 - 61 per cent of population in rural areas below rural poverty line

Employment in agriculture in Mexico in million



Mexican agricultural sector is heterogeneous...

- Coexistence of large commercial farms and Smaller farms often producing for subsistence
- Average landholding small with 5 ha
- Small and medium farms employ majority of rural population
- Agricultural wages declined on average (while others generally increased)
- Main production (highest value of 15 strategic products)

Agrifood

- Maize
- Sugar cane
- Sorghum
- Wheat

Livestock

- Poultry meat
- Beef
- Milk

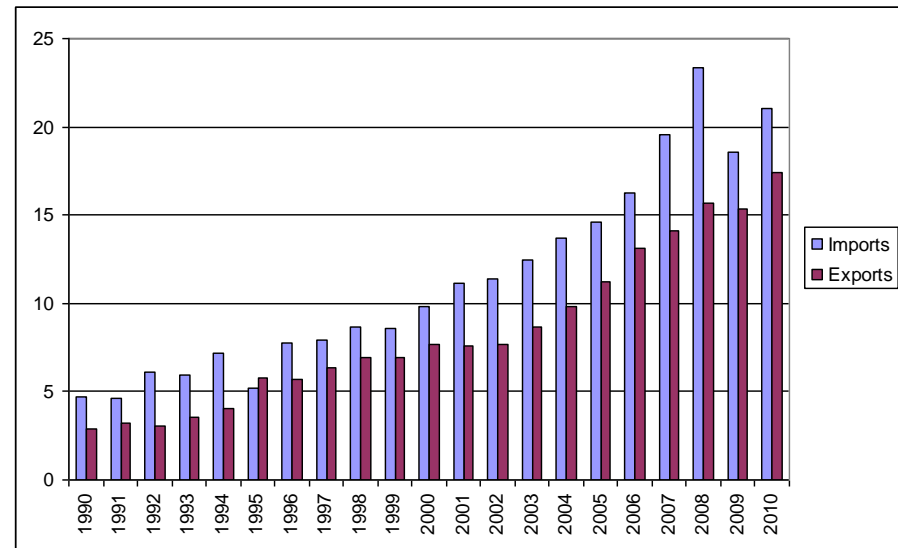
Mexican Agriculture and Trade Policy are linked...

- Mexico's trade policy has led to much more open markets, especially within the NAFTA region
- Tariffs on agricultural products between the US and Mexico have been eliminated
- In terms of standards and other measures regulating cross border trade the markets are not fully integrated and do not have a common agricultural policy
- High subsidies in the US on products such as maize, rice, sugar, sorghum and wheat during the late 1990s and early 2000s have led to significant losses for Mexican farmers producing such commodities
- Non-tariff measures are a major obstacle for exports: Mutual recognition and equivalence seem to have not worked well to overcome barriers identified

Mexican Agriculture exports and Imports increased significantly...

- Agricultural makes up 6 per cent of total merchandise exports and 7 per cent of imports
- Highly concentrated towards US: $\frac{3}{4}$ of imports and exports (share did not change since 1993)
- Mexico became net-food importer during 1980s
- Since 1995/97 imports increased 201%, exports increased 171% (nominal US\$)

Mexican agricultural imports and exports in US\$ bill.



...showing higher agriculture specialization

- Import volume of some products increased significantly since 1991/93 to 2008/10, e.g. maize imports increased by 670 per cent (see table)
- Exports of horticulture products (tomatoes, fruits) and beverages increased also significantly

Product	Change of imports, %
Maize	670
Beans	853
Wheat	192
Pork	664
Beef	70
Poultry	390

- Liberalization of agricultural trade within the NAFTA implementation period coincides with a changing composition of traded agricultural goods with more staple crops and meats flowing south and more beverages, seasonal fruits and vegetables flowing north

...there are important competition issues



Input Concentration



Processing Concentration



Price-taking farmers

Input Concentration

- Increasing use and dependency of commercial farmers on hybrid corn seeds
- 95% of the hybrid seeds planted in 2009 were produced solely by Monsanto and Pioneer.
- Concentration strengthened by the liquidation of PRONASE in early 2000s
- Regarding the key ingredients for potassium fertilizer, recent research suggests the existence of a worldwide operating potash cartel.
- With respect to the producers of agrochemicals that are active in the production of active substances, (i) the manufacture of the formulation from active substances and inert ingredients, and (ii) the packaging of such formulations, 75 to 80% of the overall market is controlled by only six companies:

Processing Concentration

- Despite large number of corn producers in Mexico, processing market dominated by two players
- GIMSA and Grupo Minsa hold an estimated 97% market share.
- Active enforcement of Ley Federal de Competencia Económica is vital, along with vigorous assessment of mergers to prevent further concentration.
- Facing such market concentrations, atomised farmers may experience abuses of market powers by agents all along the value chain.
- Even in the absence of prohibited abusive practices by a dominant company, highly concentrated markets are characterised by less competition can have a negative impact on prices and product innovation

Price Taking Farmers

- 2 million producers of corn in Mexico, 94% traditional farmers with fewer than 20 ha
- Productivity of traditional farmers upto 20% less than commercial farmers
- Interchangeability of US and Mexican price from a demand side perspective.
- Prices for corn produced in Mexico are based on the corn future prices at the Chicago Mercantile Exchange
- During the recent food crisis, subsidised US corn eliminated any positive income for the lowest productivity smallholder and forced them to retreat into subsistence.

Biofuels seem to have a potential in the context of Mexican Agriculture...

- Large amounts of agricultural residues (no edible crops) exist in Mexico but these resources have not been fully tapped
- The promotion of biofuels based on residue streams from the agricultural sector in Mexico can help the country to:
 - Improve income, employment, as well as the delivery of better energy services in rural areas
 - Avoid competition for biomass between food and fuel purposes
 - Enhance its energy security by replacing fossil fuels
 - Meet its commitments to the UNFCCC, by supporting a supporting a national transition to a low-carbon economy

...particularly in terms of energy, income and employment..

- Potentials are estimated for the production of bioelectricity, biogas and second-generation liquid biofuels (bioethanol and biodiesel) from processing residues from 13 agricultural products in Mexico: Corn, sugarcane, beans, wheat, rice, sorghum, coffee, egg, milk, beef, pork, poultry and fish
- Large under-utilized potentials have been identified:
 - Energy potentials:
 - bioelectricity could produce 10.5% of the yearly national electricity consumption
 - 2nd generation bioethanol could replace 6.3% of gasoline used
 - biodiesel could replace 23.2% of national diesel demand
 - biomethane could meet up to 14% of natural gas demand
 - Potential for income generation:
 - production could generate between USD 2.2 and 4.1 billion additional revenue for Mexican agriculture
 - Potential for employment creation:
 - Could add over 164.100 new jobs
 - Potentially better wages and offer higher-skilled employment opportunities

POLICY RECOMMENDATIONS

TRADE: 7 Policy Recommendations to strengthen agricultural sector

1. Review exposure to **external shocks** including to changes in US agricultural policy
2. Explore possibility to increase exports of competitive products to **other markets** including those with which trade agreements exist but are little utilized
3. Assess implications of participation in **new free trade agreements**
4. Explore **support** such as income loss insurance, investment subsidies, ... to bolster agriculture production (Measures should be targeted: small-scale and poor farmers)
5. Farmers could be supported to **meet standards** in export markets e.g. through extension services, technical assistance
6. Explore **harmonization of measures and regulations** to reduce barriers to trade from non-tariff measures
7. Examine need to strengthen quality control measures and enforcement for **consumer protection**

DOMESTIC AGRICULTURE POLICY: 9 Policy Recommendations to strengthen productivity and competitiveness

1. Consider augmenting agricultural research and development
2. Promote sustainable agricultural production systems
3. Facilitate smallholder farmers' access to credit and appropriate technology
4. Continue with regulatory reforms to support the rural sector
5. Promote public investments in financial services to improve the quantity and quality of the services for smallholders
6. Strengthen agricultural producer organizations
7. Promote partnerships to make key information readily available to agricultural producers
8. Enhance provision of warehouse facilities for storage and basic processing
9. Explore higher value addition in agricultural value chains, including smallholders

FOOD SECURITY: 4 Policy Recommendations

1. Raise agricultural productivity and implement early warning systems
2. Consider regional and international mechanisms needed to mitigate food shortages (e.g. regional or supranational grains reserves or emergency funds) and to curtail severe volatility of food prices.
3. Expand current hedging strategy for grains and other crops to protect farmers from price volatility
4. Explore ways to solicit resources from the G20 to integrate the recommendations of the 'Action Plan on Food Price Volatility and Agriculture', including the 'Agricultural Market Information System' to reinforce transparency on agricultural products' markets

BIOFUELS: 4 Policy Recommendations

1. *Market creation:*

- Include demand instruments for residue-based second generation biofuels

2. *Technology improvement :*

- Important to move beyond current focus on first generation biofuels
- Need for a comprehensive framework
- International cooperation to share R&D costs and to exploit economies of scale

3. *Stronger institutional cooperation*

- Inter-ministerial working group (Ministries of Energy, Agriculture, Economics, Finance and Environment) has been established
- Similar inter-ministerial structure for rural policy matters but role of energy ministry unclear
- Coordinated policies and common funding schemes important (especially between the SAGARPA and SENER)

4. *Going beyond 13 products analyzed*

- Territorial heterogeneities call for flexible solutions
- Policies and incentives should support production from a wider spectrum of residues

COMPETITION POLICY: 6 Policy Recommendations

1. Address the inconsistencies and the negative impacts of market power concentration on both producer and consumer welfare.
2. Strengthen producer organisations through information, incentives, and appropriate regulation
3. Smallholder access to market intelligence and price information
4. Better integration of local rural and urban markets
5. Investment in storage facilities by smallholder associations/cooperatives
6. CFC advocacy targeted at smallholders to increase their capacity to denounce of anti-competitive conduct

Thank you