



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 5/9/2003

GAIN Report Number: MX3067

Mexico

Agricultural Situation

Government of Mexico Signs National Agreement on Agriculture

2003

Approved by:

William Brant
U.S Embassy Mexico City

Prepared by:

Lisa Anderson, Salvador Trejo, Benjamin Juarez, Dulce Flores, Jorge Sanchez, Gabriel Hernandez

Report Highlights:

On April 28, 2003, the Government of Mexico (GOM) and producer groups signed the National Agreement on Agriculture, after five months of national debate, public hearings, and numerous protests about the state of Mexican agriculture and its competitiveness in the face of zero tariffs on most U.S. and Canadian agricultural goods -- a period which was ushered in on January 1, 2003, one of the key tariff phase-out deadlines of the North American Free Trade Agreement (NAFTA). The document's most specific measures seem to echo what was contained in the GOM's agricultural armor package in November 2002. New measures such as the establishment of an emergency rural fund and other measures with specific funding amounts for job creation and commercialization programs are also called for. Also included, but much less specific in nature, are the promises to raise the living conditions of the rural poor through better housing, education, and health care, and to establish a sustainable environmental policy.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

The main objectives of the National Agreement on Agriculture are to establish food production sovereignty and to develop and increase agricultural production in an equitable way for the rural countryside. To that end, the document outlines a series of immediate objectives and actions, although the timeframe for implementation is left vague. The most important of these actions include increasing subsidies for sugarcane, coffee, grain, oilseed, fishery and forest producers and establishes emergency spending \$2.8 billion pesos (USD\$ 260 million) for the rural sector using surplus oil revenues. A summary of the emergency spending follows:

- A) Industrial Productivity Projects: 300 million pesos (USD\$ 28.4 million)
- B) Help for Women Farmers: 100 million pesos (USD\$ 9 million)
- C) Rural Healthcare: 400 million pesos (USD\$ 37 million)
- D) Rural Housing Development: 260 million pesos (USD\$ 24 million)
- E) Subsidies to Part-time Workers: 150 million pesos (USD\$ 14.1 million)
- F) Procampo Farm Subsidy Program: 650 million pesos (USD\$ 60 million)
- G) Creation of Rural Corporations: 140 million pesos (USD\$ 14.1 million)
- H) Cost of Expropriating Land: 300 million pesos (US\$ 28.4 million)
- I) Senior Citizen Support: 500 million pesos (US\$ 46 million)

The agreement also includes provisions for the restructuring of banking procedures and loan forgiveness programs for small producers; energy subsidies to rural farmers; and increased financial support to the rural sector with oil revenue. Most of these initiatives and their supporting funding must be approved first by the lower house of the Mexican Congress and will not be implemented until 2004.

In the area of international trade, the accord provides for the following:

-- The GOM and agricultural producer groups will conduct a joint evaluation of the NAFTA agricultural chapter and its effect on Mexico's rural sector to be carried out by December 31, 2003.

-- The GOM and agricultural producer groups will conduct a joint study of the U.S. Farm Bill to be completed by December 31, 2003. In turn, the GOM will apply all legal mechanisms to protect domestic agricultural producers from unfair trade practices.

-- The GOM will immediately enter into consultations with the governments of Canada and the United States with the objective of reviewing the white corn and dry bean provisions of the NAFTA and establishing a permanent administrative procedure to manage imports.

-- To address the continued use of agricultural subsidies by the United States and Canada since the implementation of the NAFTA, the GOM will consider applying all available defense mechanisms as provided for in the NAFTA. In addition, the GOM will seek consultations with the United States and Canada to consider the addition of new articles and annexes to the NAFTA to address existing agricultural asymmetries.

-- The GOM will suspend the issuance of import permits (cupos) for white corn except in times of short supply. Additionally, the GOM will initiate either a dumping or safeguard investigation of dry bean imports to counter unfair trade practices. (Comment: GOM officials indicate that 2003 cupos that have already been issued will not be affected).

-- Within 90 days, the GOM will develop a new policy for the issuance of import permits (cupos) in which the GOM will consult with producer groups to analyze domestic supply and demand conditions, criteria for issuing cupos, and establish appropriate import limits for different end-user market sectors.

-- The GOM will create an office of trade investigations that will work with producer groups to monitor imports for unfair trade practices.

-- The GOM will support its recognition as a developing country under the provisions of the World Trade Organization and propose the immediate elimination of export and internal subsidies that distort international trade. In addition, the GOM will reserve the right to reintroduce tariffs and quantitative restrictions for reasons of national sovereignty and security.

In addition, the agreement calls for the GOM to rigorously apply defense mechanisms (i.e., safeguards, dumping measures) to protect certain commodities; to encourage the establishment of domestic production contracts to reduce dependence on U.S. yellow corn imports; to intensify the battle against illegal imports and contraband; to strengthen its food quality and food safety programs through harmonization with international standards and creation of Mexican quality regulations; to design a "mirror" policy with regard to foreign agricultural trade; to encourage the establishment of a Rural Development Cooperation Agreement with its NAFTA partners to reduce structural asymmetries between the three countries; and to move forward a migration agreement with the United States and Canada. It's unclear what the time frame will be for establishment of most of the provisions noted above.

The economic development section of the agreement makes no mention of specific funding amounts, but provides for a number of programs, many of which may well be continuations of existing programs, designed to make Mexico's rural sector more competitive. The section outlines certain multi-year programs, but does not allow for multi-year budgeting, with lots of programs to address every conceivable weakness in Mexico's rural sector. Specifically, the section addresses the need for a long-term strategy (through 2020) to develop the agricultural sector; establishment of special diesel and electricity rates for producers; continued use of PROCAMPO incentives; development of a larger, and more reliable credit from Financiera Rural, including micro financing and crop insurance; infrastructure support to improve the marketability of crops.

With regard to social development, the accord promises in a general and vague way to address a host of issues plaguing the Mexican countryside. These include improving the living conditions of the rural population; reducing poverty; encouraging rural education; incorporating the rural sector into Mexico's social security system; improving rural health services; supporting agricultural and migrant workers; increasing availability and quality of rural housing; establishing a sustainable environmental policy; and improving the infrastructure in the Mexican countryside.

The last section details modifications that must be made to Mexico's legal framework and institutions before many of the changes contained in the accord can happen. Of particular note are the following references: the Lower House of the Mexican Congress will have authority to ratify international agreements; Diconsa, the government distribution agency,

will be restructured to give preference to domestic, rather than imported, food products; and the Ministry of Agriculture's Marketing and Promotion Commodity Services Agency (ASERCA) will be restructured to give it authority to reorganize and regulate the market, including regulating reserves and financing inventories.

Comment: Many of the specific measures contained in the accord seem to echo those that were contained in the Agricultural Armor package announced by the GOM in November 2002. Calls to rigorously apply defense mechanisms such as safeguards and dumping, to strengthen Mexico's food quality and food safety program, to implement a "mirror" policy, and to increase subsidies for certain crops are not new. However, additional, more specific appeals, such as restructuring the import permit system, protecting dry beans and corn, encouraging contract agriculture to lessen dependency on food imports, invoking the right to reintroduce quantitative restrictions for national sovereignty and food safety reasons, as well as the involvement of domestic producer groups in the decision making process, are ominous signs that the GOM has caved into pressure from campesino and farming organizations to take even more trade-restrictive measures than what they are doing currently. Appeals to establish a NAFTA Rural Development Cooperation Agreement is a sign that the GOM recognizes the needs to reduce structural asymmetries in the rural sector, but will have difficulty doing so without U.S. and Canadian involvement.

The following is a translation of the international trade section of the National Agreement on Agriculture. In the event of discrepancy or discrepancies between this translation and the Spanish version of the agreement, the latter shall prevail.

B. INTERNATIONAL TRADE

1. North American Free Trade Agreement and other international trade agreements.

47. The GOM shall conduct an evaluation of the impacts and instrumentation of the agriculture chapter of the NAFTA, as well as for fishing and forestry products in the international trade agreements. Said evaluation will be performed with the participation of agricultural organizations and producers, Congress, local governments, universities and centers of investigations and shall conclude no later than December 31, of the current year.

48. With foundation on the exploration of the asymmetries fueled by supports and extraordinary subsidies and considering the past ten years from the date of negotiation of the NAFTA, the GOM will apply and proceed with all the mechanisms of defense established in the corresponding laws of the NAFTA, in conformance to the time and strategies more convenient to the national interest. The GOM will discuss and convene with the United States and Canada any additions in the articles and annexes established in the NAFTA, which are agreed to by the parties in the complimentary accords or the annexes that are subscribed and in accordance to the NAFTA shall form part thereof. The previous, which among other aspects guarantee the rights derived from GATT-WTO incorporated into the NAFTA and those established in our constitution, the law of foreign trade, the law of rural sustainability and the agreements stipulated in the present National Agreement on Agriculture.

49. Likewise, the GOM shall perform an analysis of the impacts of the law of Agriculture Security and Rural Investment 2002 of the United States, and in its case, apply all the juridical instruments in force which will permit the defense of domestic producers from unfair trade practices. Said evaluation will be performed with the participation of agricultural organizations and producers, Congress, local governments, universities and centers of investigations and shall conclude no later than December 31, of the current year

50. The GOM on basis of the faculties granted by the constitution and the respective laws, shall initiate immediate official consultations with the governments of the United States and Canada for the purpose of reviewing the NAFTA provisions on white corn and beans and to agree with the counterparts the substitution of said provisions with a permanent administrative procedure to manage imports or any other equivalent which will safeguard the legitimate interests of domestic producers and the sovereignty and safety of foodstuffs.

51. While the above is achieved, with regards to white corn and beans the GOM will suspend the issuance of import permits (cupos) except in times of short supply. Additionally, the GOM will initiate either a dumping or safeguard investigation of dry bean imports to counter unfair trade practices, on the basis of the information furnished by domestic producers.

52. Additionally, programs, actions and development procedures for domestic production of beans and white corn will be considered to insure the supply of the domestic market fundamentally with domestic product.

53. The GOM, the organized producers, businessmen and consumers in general shall continue to drive agriculture by contract, reducing systematically the current dependence on imports of yellow corn.

2. Policy on import cupos

54. The GOM shall consult with farming organizations, producers and agro industrialists for the purpose of designing and overseeing the policy of import cupos, within the policy of productive development and economical development of the current National Agreement of Agriculture in a maximum term of 90 days. Said policy will include, among others:

55. The foreseen minimum requirements in the free trade agreements and the additional necessities of the national supply and demand, for the purpose of dealing only with cases of real deficits.

56. The revision of imports additional to the agreed cupos, to determine if they are complimentary to domestic production and if not, make revisions to the cupo assignment criteria.

57. The strengthening of the principals of equity, transparency and assurance in the assignment of the cupos to the beneficiaries.

58. The proposal of establishing maximum volumes of import differentials by product and productive chain through cupos or tariffs, whichever corresponds or is agreed to in its application, in accordance to the trade agreements which Mexico forms part of or those included in the WTO.

59. For the remainder of sensitive agriculture and forestry products – including barley and malt, and those considered in the law of rural development sustainability, as basic and strategic products, imports of which shall be watched over very strictly and in case damage to domestic production is detected, the GOM will apply all legal mechanisms of protection in force.

3. Defense against unfair trade practices

60. Access to trade protection instruments through the application of the law of foreign trade, so that a fair, clear and timely defense is established in the domestic market.

61. The creation of an office of trade investigations with the participation of farming organizations and producers to monitor imports of agricultural products to determine any unfair trade practices which could constitute damage or threat of damage to the domestic production of these products.

62. The application of all juridical instruments, including the international trade agreements celebrated by Mexico with other countries or regions to demand the fulfillment of all the obligations from the counterparts in benefit of Mexicans and the defense of their rights in and out of the country, in particular to combat the unnecessary use of direct or indirect subsidies in exports.

63. To react proactively for eliminating unfair trade practices through investigations on antidumping and safeguards, to evaluate if we face situations which merits the imposition a compensatory duty or safeguard measure in conformance to the foreign trade law.

64. Before implementing any defense measure that could have negative repercussions in agricultural export sectors, the GOM will consult with agriculture organizations and agricultural producers to evaluate the pertinence of this measure.

65. In addition to intensifying the battle against illegal imports and contraband of merchandise, with the participation of observers from agricultural organizations, producers and certifying companies specifically established for this purpose to watch the legal entry of agricultural, forestry and fishing products and continue to increase the inspection procedures up to 100% inspection as an additional measure to protect domestic production and in defense of the domestic market.

4. Quality and Safety

66. To intensify international negotiations for the acknowledgement of free zones and low pest and disease prevalence and to combat unilateral measures in safety and health matters, and quality and safety which lack scientific basis for the purpose of eliminating non-tariff barriers which impede the increase of Mexican agricultural exports to the international markets.

67. To continue restructuring the domestic market for agricultural, forestry and fishing products through the strengthening of quality and safety programs and intensify promotional campaigns for consumption in the domestic and foreign markets of said products.

68. To promote and advise agricultural, forestry and fishing concerns for their benefit, denominations of origin, collective brands and indications of geographical origins, to differentiate their products and commercialize them among preferential clients who favor said products most and thereby increase the producer's income.

69. The GOM will coordinate with the agriculture and producer organizations to review and modify plant and animal health norms so they coincide with international parameters and are applied to imported products for the purpose of establishing fair competition for our producers and protection to our consumers.

70. The GOM will review and create Mexican quality standards on agricultural products and require their observance through official Mexican standards to determine their conformity with the Law of Metrology and Normalization.

71. The official quality standard, "Mexico Calidad Selecta", will be promoted to distinguish and support those agricultural products of national origin that comply with high standards of quality.

72. The work and activities of the national consultative committees on health normalization and commercial information will be driven to a maximum on work programs dealing with specific subjects of agriculture and forestry normalization.

73. Protective actions will be implemented for agro biodiversity, such as monitoring contamination and genetic erosion.

74. The coordination between the Secretariat of Economy, SENASICA and the Secretariat of Health will be strengthened to guarantee safety and compliance of animal health norms and commercial information on imports of foodstuffs. Agricultural organizations and producers will be kept in the loop.

75. Likewise, the evaluation infrastructure will be strengthened at the points of entry to the country and sales points in a coordinated manner between the Secretary of Economy, the Secretary of Health, the Secretary of Agriculture, Customs and the Consumer Protection Agency (PROFECO).

76. The GOM shall consult with the agricultural organizations and producers to design and instrument a "mirror" policy with regard to foreign agricultural trade to insure that products sold in the domestic market comply with the established norms.

5. International trade negotiations

77. The GOM shall establish the mechanisms to allow the agricultural organizations and producers to participate in ongoing or future international trade negotiations.

78. The GOM in their negotiations with the WTO on agricultural production will support its recognition as a developing country and propose the immediate elimination of export and internal subsidies that distort international trade. In addition, the GOM will reserve the right to reintroduce tariffs and quantitative restrictions for reasons of national sovereignty and security.

6. Cooperation

79. To encourage the establishment of a Rural Development Cooperation Agreement with its NAFTA partners to reduce structural asymmetries between the three countries.

80. The following are particular contents of the National Agriculture Agreement:

- The availability of funds and mechanisms to allow structural investments in regions of social disadvantage.
- The establishment of a policy on pricing, supports and equitable subsidies.
- The establishment of a trilateral commission in matters of metrology, normalization and plant and animal health criteria for the inspection, certification and eradication of diseases and pests.
- Trilateral cooperation to transform productive activities by establishing competitive and sustainable agro systems and promoting international alliances among producer organizations and farming concerns.
- Consolidation of specific supports for the modernization of rural financial instruments.

- Establishment of transparent information mechanisms to evaluate the evolution of comparative socioeconomic activity.
- Mechanisms for cooperation and solidarity for natural disaster contingencies.
- To promote the process of investigation and transfer of technology in rural areas and thus close the gap between the three countries.

81. The signers of this National Agriculture Agreement support the President of Mexico's initiative to promote a migrant agreement with the United States and Canada to allow the free movement across borders.