

CONASUPO: The Dismantling of a State Trader

(Draft, Nov., 7th, 1998)
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Introduction and Background

Government intervention in agriculture was a major component of the development policies that the Mexican state followed from the second half of 1930 until the beginning of the nineties, and the National Company of Popular Subsistences (Compañía Nacional de Subsistencias Populares or CONASUPO)¹ was a major player since its creation in the sixties.

CONASUPO has been included to the liberalization process that the last Mexican governments have followed since the debt crisis of 1982. However, the deep restructuring of the institution began afterwards, between 1989 and 1991. These reforms meant a sharp reduction in CONASUPO's direct interventions in the food chain. The reforms have ranged from the disappearance of COANSUPO's agroindustries to the elimination of producers' price supports (or guaranteed prices) and import licensing for all the agricultural products that were considered historically by the government as basic and in the budget of the poor.

Before 1990, CONASUPO gave price supports to domestic producers of twelve crops: barely, beans, copra, corn, cotton seed, rice, sesame seed, sorghum, soy, sunflower, sunflower and wheat. Today, CONASUPO has just some control over the economics of beans, corn and milk, and a new governmental marketing institution (called ASERCA) has taken several functions that CONASUPO performed. In addition, through CONASUPO and other dependencies, the Mexican government still gives consumption subsidies of

* I acknowledge the collaboration of Fernando Barceinas in the quantitative study and Rosa Maria Rodriguez in data gathering. I also want to thank the support of Roberto Aceves, Graciela Aguilar and Mario Sosa from the Agricultural Ministry in providing me some of the data used as well as valuable additional information.

¹ A glossary of terms is at the end of the paper.

“tortillas” (corn bread) and milk for the poor, and has some influence on the storing and distribution of some crops and of powdered milk (PM).

With respect to trade, import licenses have been abolished for all products. From January, 1994, tariff rate quotas (TRQ) were established for major crops coming from Canada and the US, and for PM from the US. TRQ and tariffs charged to its two other North American partners will be reduced continuously until their disappearance, between the years 2003 to 2008. In addition, since 1995 Mexico has followed the Uruguay Round accords.

CONASUPO was a typical Parastatal and State Trading Enterprise (STE) of Less Developed Countries. So, it is important to study the characteristics of the reduction of CONASUPO’s activities, as well as its prevailing interventions in the light of trade liberalization processes and commitments under NAFTA and the World Trade Organization (WTO). With this analysis a documentation of the transition process of a major STE of Mexico will be available to discuss state trading in agricultural products in the context of regional and multilateral trade liberalization, and to extract lessons to other Less Developed Countries.

The paper is centered on studying major crops where CONASUPO intervened or still intervenes (the case of powdered milk is covered in the study of García). The paper is divided into six sections. In the following one we describe the origins and traditional functions of CONASUPO. In the third section we present the Company's current operations. The fourth is focused in discussing the reforms CONASUPO has been subject to since the eighties, in both the trade and the domestic areas. Section fifth summarizes the results of a quantitative analysis conducted to measure if the reforms to CONASUPO have meant changes in the structure of protection of the crops on which the Company and/or the Mexican government intervened or still intervene (barley, beans, corn, rice, sorghum, soy and wheat). The paper ends with section six, where we present a summary of the results of our research, discuss further steps the Mexican government plans to follow to complete the liberalization of Mexico's agricultural markets, and propose some issues to be considered in the discussion of the future of Mexico's agricultural policies.

History and Operations of CONASUPO

The antecedents of CONASUPO can be traced in the mid-thirties, when political stability after the Revolution that began in 1910 was reached, and when the first non-military government was established in Mexico. During the late thirties, several state entities were created to protect the poor population of Mexico, such as The Commission to Regulate the Market of Basic Consumer Goods (or Subsistences), the Commerce Vigilance Commission, and the Commission to Regulate the Wheat Market and the Export-Import Company.

From the thirties and up to the debt crisis of 1982, the regulatory and direct intervention activities of the Mexican State in the food chains increased continuously. In 1965 CONASUPO was created to organize under one Parastatal the historical governmental food regulatory activities. During this decade CONASUPO was defined as an instrument of the federal government to promote the economic and social development of Mexico through the following two functions: a) to regulate the markets of staples (or popular subsistences) by creating an efficient and rational relation between the producer and the consumer, and by eliminating inefficient and dishonest (*sic*) intermediaries; and b) to protect low income consumers (by granting them access to basic foods), and low income producers (by allowing them to get from their economic activities an appropriate means of living).

In other terms, CONASUPO's objectives were to increase the purchasing power of the low income consumers and the income of the small farmers producing staples²; as well as to

² This latter objective has been specially designed for the "ejidatarios", one component of Mexico's agrarian structure. Up to 1991, farms in Mexico were either private or had limited land property rights. The latter farms, known as "ejidos", were created as a result of land redistribution following the Mexican Revolution of 1910. An ejido is formed by several small landholdings, each of which is assigned to an ejidatario (the ejidos also have common lands). Most ejidatarios are small farmers, and most of the ejidos' lands in Mexico is rainfed and dedicated to staple production. Prior to the Ejidal Reform of 1991, the ejidatarios were not allowed by law to sell or lease their lands. In 1991, the Mexican Constitution was modified to abolish these limitations. Under the reforms, ejido rights may be converted to marketable land rights, by vote of the ejidatarios forming an ejido. In addition and since then, an ejido can associate with the private sector in joint ventures.

spur the efficiency of the domestic and external trading of these commodities (CONASUPO: 1970 a and b).

Before the reforms of the nineties, CONASUPO's programs included a wide range of agricultural commodities: barely, beans, corn, oleaginous crops, rice, sorghum, wheat and powdered milk. With the policies of price supports for the producers of these crops, by processing them, by its storage and distribution actions and by the regulation of their trade through import licensing, CONASUPO exacted control over an important component of Mexico's food chain.

The importance of CONASUPO's interventions can be illustrated by revising the weight on agricultural domestic supply of the crops where the Company exerted control. Taken together, since the beginning of the seventies, these crops explain more than thirty percent of the value of crop agricultural gross domestic product (Table 1). By far, corn is the most important crop: its weight on the supply of the eleven crops we have considered has fluctuated between 45 percent in the seventies to almost 60 percent during the nineties. Corn is followed by sorghum (explaining around 13 percent of the value of the production of the eleven crops from 1970 to 1996), wheat (12 percent, also for the whole period) and beans (around 11 per cent). The contribution of soy was 4 percent up to 1993, and has decreased since then, and a similar reduction has been experienced by the other oilseeds and rice, whereas the participation of barley has been less than the 2 percent during the whole period.

In the sixties, seventies and up the end of the oil boom (1982), subsidiaries of CONASUPO grew and other ones were created. Their activities included the processing of grains, oils and powder milk to produce animal feed and consumer goods such as corn flour, wheat pasta, edible oils and fluid milk. CONASUPO had also retail shops to sell basic foods to the rural and urban poor and was also involved in the fertilizer and improved seeds trade and in peasants' training programs (CONASUPO: 1970 a and b).

Since the beginning of the eighties, Mexico has witnessed a radical change of the economic orientation of its state development policies: from a model of import substitution to a model of outward orientation, with less and less state interventions. In this transformation, CONASUPO has been included. An important step towards the reorientation of the Mexican economy was taken in 1986, when Mexico became a full GATT member.

We propose to divide the reduction of CONASUPO's interventions into three stages. The first one is when CONASUPO began to be reformed: it was conducted during the Administration of Miguel de la Madrid (1983-88) and the first years of the Salinas de Gortari's government (1989-90). The changes during this phase consisted in the reorganization of the "CONASUPO System" to reduce its administrative costs, the lowering of the company's direct interventions and the redefinition of its marketing regulatory functions. Parallel to this, the government began to promote the participation of the private sector in the basic staples chain (CONASUPO: 1986, 1988 and 1989). During its first years of government, the Salinas Administration reduced CONASUPO's participation in the oilseeds markets, eliminated the generalized subsidies for the consumption of wheat bread and changed the subsidies given to corn "tortillas" (see Yañez-Zazueta: 1997, for a detailed discussion of corn subsidies).

The second stage of CONASUPO's reforms began between 1990 and 1991. In this period, the reduction of CONASUPO's participation in the food chain was much stronger than in the previous one: its interventions were further reduced and just linked to corn, beans and powdered milk. In relation to trade, Mexico began in January of 1994 to put into practice its NAFTA commitments, and in the same month of 1995 to implement the Uruguay Round accords.

The third stage is underway, it began in 1995 with President Zedillo's measures to further reduce CONASUPO's direct interventions by reducing the Company's price fixation and by completing the process of transferring CONASUPO's rural warehouses to agricultural producers. This third stage includes the purpose of the current Administration to eliminate

the marketing support program for ejidatarios' products and its plans to eliminate by the end of 1998 the subsidies that the Mexican government has historically granted to corn tortillas.

Until the end of the eighties, CONASUPO had a considerable number of subsidiaries, as well a financial institution. By 1995-6 most of them have been dismantled, privatized or transferred to the farmers (see Table 2 and below).

In 1991 a new public institution, called ASERCA (Support and Services for the Marketing of Agricultural and Livestock Products), was created. ASERCA is independent of CONASUPO but part of the Agricultural Ministry. ASERCA has been a major component of the process of eliminating CONASUPO's interventions in ten of the twelve crops that were under CONASUPO's control (the exceptions are corn and beans). ASERCA's functions are directed towards the promotion of the marketing rice, sorghum, soy and other oleaginous crops, and wheat, but is not involved in buying and storing agricultural commodities³ (an activity which is now carried by the private sector). ASERCA is also in charge of PROCAMPO, a program of direct income transfers to farmers.

Parallel to the creation of ASERCA, a major reform in the Mexican State intervention in the production of staples was decided: it consisted in the elimination of producer price supports that CONASUPO had traditionally granted to nine crops: copra, cotton seed, grain barely, rice, soy, sorghum, sunflower, sunflower and wheat (sesame seed guaranteed prices were eliminated before). So, CONASUPO's interventions in the setting of prices were reduced to those of beans and corn.

In 1994 a new decoupled support program for the producers of basic crops was implemented and carried out by ASERCA. The program is called PROCAMPO and will last fifteen years as the agricultural sector transits towards a more liberalized context. PROCAMPO consists in direct income transfers to those farmers that produce or used to produce in previous years barley, beans, corn, cotton, rice, sorghum, soy, sunflower and

³ ASERCA also promotes the exports of cotton, and fruits and vegetables.

wheat⁴. In addition, import licensing for these crops began to be eliminated (see below and Salinas de Gortari, C.: 1991 to 1994) and the scheme of subsidies for bread producers was eliminated.

Since its beginning in 1995, the Administration of President Zedillo has taken further steps towards a more liberalized food chain. However, CONASUPO, together with other governmental entities, still intervenes in the markets of some crops. So, we propose to define a third stage of reforms towards the dismantling of CONASUPO, beginning in 1995 but also prospective.

Current Operations

After being part of the Ministry of Commerce (SECOFI) during the Salinas' Administration, CONASUPO is again a component of the Ministry of Agriculture (since 1995 called SAGAR or Ministry of Agriculture, Livestock and Rural Development). SAGAR and other four Ministries are part of the Agricultural Intrasectoral Committee, in charge of the establishment of price supports, the amounts of direct income transfers to farmers, and the fixation and allocation of import quotas.

Before its reforms, CONASUPO had subsidiaries involved in storing, in processing, and in the marketing and distribution of staples. With the reforms most of them were eliminated, privatized or transferred to SEDESOL (the Ministry for Social Development, created in 1992, see Table 2).

Two of CONASUPO's former subsidiaries -- DICONSA and LICONSA-- are now part of SEDESOL, and almost 89 per cent of BORUCONSA's facilities (rural warehouses)⁵ have

⁴ The Zedillo Administration has added a program to capitalize agricultural producers. This program is called PRODUCE and is independent of PROCAMPO. Both are part of the "Alianza para el Campo" (Alliance for the Countryside), that contains all of the Zedillo's Administration agricultural policies. Details are in OCDE: 1997, pp. 75-8.

⁵ BORUCONSA was created by the end of the seventies to allow small farmers and ejidatarios located far away from ANDSA's warehouses to have a nearby facility to sell their crops to the government at guaranteed prices. As well as guaranteeing the small farmer a buyer of his (her) crops, their storage, their classification and their certification, BORUCONSA also sells to the rural population basic commodities, and is involved in

been transferred to the producers, to ejidos or to local authorities. In addition, between 1990 and 1992, all of the processing activities of CONASUPO were eliminated⁶, but those of hydrating powdered milk, done by LICONSA (see paper by García). DICONSA was formerly a CONASUPO's distribution and trading promotion subsidiary: now it is part of SEDESOL that distributes staples to consumers at low prices

As for state marketing activities of staples, ASERCA is now in charge of the programs for the crops that were under CONASUPO's control, but for corn and beans. In addition, IMPECSA (in charge of promoting small traders) was liquidated in January of 1993. Finally, PACE --a marketing support program for the ejidatario producers of corn and beans-- prevails, but the current Administration plans to abolish it.

In 1995 the Zedillo Administration decided to further reduce CONASUPO's direct functions by transforming the Company so as to be just a "last instance" buyer of corn and beans at "minimum prices". During the current Administration CONASUPO also promotes and regulates the markets of these two crops by building stocks of them (and of powdered milk) through domestic and international purchases.

The redefinition of CONASUPO's functions of being just a last instance buyer of corn and beans produced domestically is shown by the following figures: from 1988 to 1994 CONASUPO bought 27 percent of domestic corn production and 26 per cent of domestic production of beans, and these figures reduced to 15 per cent and 11 percent, respectively, in the following four years (SAGAR's data base)⁷.

CONASUPO is still involved in the programs to attend the poor. These programs

PACE (Programa de Apoyo a la Comercialización Ejidal), the marketing support program of ejidal producers. ANDSA's privatization is also almost completed. ANDSA was not a CONASUPO subsidiary: the Ministry of Finance administers it. The process of disincorporation and privatization of State warehouses is reflected by the fact that the storing volume operated by CONASUPO through ANDSA and BORUCONSA, from averaging 58 million of Mts. per year during 1988-1994, it decreased to 47.2 million of Mts. in 1995 and to 23.8 in 1996 (SAGAR data base).

⁶ Between 1991 and 1992, ICONSA, MICONSA and TRICONSA, CONASUPO's corn and wheat milling and oil processing subsidiaries were privatized. FIA (Fondo para la Industria Asociada), a financial entity to support processors, was also abolished during this period (see Table 2).

⁷ The data is provided by SAGAR's Center of Agricultural Statistics.

--implemented together with PRONASOL⁸-- consist in subsidizing corn millers and “tortilla” makers to support low prices of their processed products for the consumers; in importing and processing powder milk for the poor children, and in providing some basic foods as corn and beans to DICONSA (SEDESOL's retailed shops).

Trade and Domestic Reforms

Up to the end of the eighties, CONASUPO's trade intervention through direct imports was overwhelming in beans, corn, rice and wheat. This was also true for sorghum and soy during the first half of the seventies (Table 3). Beginning in 1989, CONASUPO's direct imports of beans, corn, rice and wheat were sharply reduced: for rice from 95 percent of total imports in 1983-8, to 25 percent in 1989-93 and to nil during 1994-96; for beans from 62 percent in 1983-8 and 99 percent in 1989-93, to nil during 1994-6; for corn from 83 percent in 1983-8 to 38 percent in 1989-93 and to 16 percent during 1994-96; and for wheat from 68 percent in 1983-8 to 15 percent in 1989-93 and to nil during 1994-96. Table 3 also shows that the reduction of CONASUPO's imports coincides with a rise in the participation of imports on gross domestic product of barley, oilseeds, rice, sorghum and wheat.

Changes of trade regime

In 1986 Mexico became a full GATT member. However, the Mexican government undertook no major changes in the structure of protection of agricultural products. All the products on which CONASUPO intervened were subject to import permits and administered by the Commerce Ministry or SECOFI. Between 1989 and the beginning of NAFTA (January, 1994) and of the application of the Uruguay Round accords (January 1995) import licenses were eliminated and the structure of border protection of the agricultural sector of Mexico was radically transformed (Table 4).

⁸ PRONASOL (Programa Nacional de Solidaridad or National Solidarity Program) is part of SEDESOL, created in 1991 by the Salinas Administration. PRONASOL was designed as an assistance program for the rural and urban poor, separated from economic policies.

NAFTA became the first free trade agreement using extensively tariff rate quotas (TRQs) as a transition mechanism to eliminate quantitative restrictions and to move towards a free trade. TRQs are applied to those products that the government of Mexico considered very sensitive in the NAFTA negotiations.

Two separate agreements between Mexico and Canada and between Mexico and the US were negotiated. Under NAFTA, no tariffs for those agricultural products that are under in-quota imports are charged by Mexico to any of its two northern partners. In addition, a phase-out period of fifteen years of above-quota tariff reductions and quota increases was settled for corn, dry beans and powdered milk (this latter product was excluded in the negotiations between Canada and Mexico). For barley free trade will be reached in a period of ten years.

Under NAFTA, the process of trade liberalization of the agricultural products where CONASUPO had or still has some influence is as follows (see Tables 4 and 5). Since January of 1994 sorghum, sesame seeds, sunflower and sunflower from Canada and the U.S.A enter free to Mexico ⁹. Free trade also applies to seeds for cropping of barley, beans, corn, cotton, soy, sunflower and sunflower, and beginning in January of 1998 all types of soy also enter free to Mexico from its other two North American partners.

Tariff rate quotas (TRQs) were settled for barley (grain and malt together), beans and corn (and for powdered milk from the US). Quota levels were established using trade flows between Mexico and its two North American partners during 1989 to 1991. In 1994 the quota for corn was settled to 2,500,000 metric tons (Mts.) for the USA and to 1,000 Mts. for Canada, and the above-quota base or consolidated tariff for both countries was fixed to 215 per cent (or 206.4US\$/mts.). In January of 1994, the quota for beans was 50,000 Mts. for the U.S.A. and 1,500 for Canada, and the above quota tariff was 139 per cent (480US\$/Mt). For both, grain and malt barley, the quota was settled in 1994 to 120,000 Mts. for imports from the U.S.A. and 30,000 Mts. for imports from Canada, and the above-quota ad-valorem tariff for grain barley was 128%, and 175% for malt barley. Finally, the

quota to the imports of PM from the US was 40,000 Mts. and the over-quota tariff was 139 per cent in 1994.

Beginning in 1995, the quotas for barley, beans, corn and PM are growing each year and their above quota tariffs have been subject to a yearly process of reductions. This process of liberalization was designed under NAFTA for beans, corn and PM to reach full free entrance to Mexico by December, 2007. Full liberalization for barley will be faster: it will be reached by the end of the year 2002 (Table 5).

Under NAFTA, quota assignments are settled by a Committee formed by the Ministries of Commerce (SECOFI) and Agriculture (SAGAR), and by representatives of producers and consumers. The Mexican government has followed four allocation mechanisms for TRQs: direct assignment, auctions, government monopoly and "first come-first served". For the case of the commodities of our concern, corn and barley have been subject to direct allocations, dry beans to auctions, and, up to 1997, powdered milk to the government monopoly.

CONASUPO participates just indirectly in the allocations of corn quotas since, together with the Ministry of Agriculture, defines the amount of the crop to be allocated to accomplish the Company's functions (mainly stock piling and sales to tortilla producers to sustain the tortilla subsidy program). The rest of the corn quota has been allocated to private cattle feeders. For the case of the quotas of powdered milk, CONASUPO was authorized until 1997 as the sole importer of this commodity and then it auctioned off the balance of its purchases to the private sector (see Shagam and Plunkett: 1997, and the paper of García).

Since the beginning of NAFTA implementation, Mexico has not charged above quota tariffs to any of the crops subject to TRQs. This has been so either because its import requirements have been lower than the accorded quota or because the Mexican government has increased the quota. So, Mexico's imports of beans have been lower than the quota, and

⁹ However, there is a 5% ad-valorem tariff for suflower from imports are between the 1st of October and the

when this have not been so for corn (during 1995 and 1996) above quota imports were allowed with no tariff charge ¹⁰.

However, there have been some tensions between Canada and Mexico related to barley. The quota established under the accord between the two countries includes both, grain barley and malt barley, whereas the above quota tariff for the former semiprocessed crop is higher (155% vs. 128% in 1994, Table 4). There is not a tariff fraction for feed barley, and the Mexican government assigns the whole quota of barley to Mexican beer producers, which mostly import malt barley because of their barley processing capacity limitations. In addition Mexico has not covered the quota for barley to the U.S.. The Canadians argue that they have been restricted to export more barley to Mexico under the quota regime because the quota allocation of the Mexican government to beer producers and because it separates the total quota under NAFTA between Canada and the US.

Notwithstanding the process of agricultural trade liberalization between the three North American countries, NAFTA does not imply specific commitments on neither domestic marketing support reductions nor export subsidies.

Mexico has signed (Free Trade Agreements (FTAs) with other American countries (Costa Rica, Chile, Colombia, Venezuela and Bolivia) and is in a process of trade liberalization with members of the Latin American Association for Integration (ALADI) and with MERCOSUR and the European Union. However, major agricultural products such as corn, beans, barley and wheat have not been included in this process (the exception is the agreement with Chile). So, to complete our summary of Mexico's trade reforms on staples, it is sufficient to present the trade regime of Mexico with the other members of WTO.

31st of December. Cotton seeds and sesame have, respectively a 7.5 per cent and a 5 per cent tariff.

¹⁰ Beans have not important in Mexico's imports because it has been self-sufficient in the type of beans preferred by its population. This crop was included in the TRQ scheme and CONASUPO still intervenes in its markets mainly because the farmers that produce beans have marketing problems and because it is a major component of the Mexicans diet. So, CONASUPO still offers marketing supports to bean producers and subsidizes its consumption.

Beginning in January, 1995, Mexico re-structured its protection measures to agriculture following the Uruguay Round accords. The tariff base (or consolidated tariff) was settled to 25 percent for almost all of the agricultural products. However, the tariff rates applied in practice have been lower, at around 15 per cent. The exception are those products where TRQs were applied (as in NAFTA, they are corn, beans, barley and powdered milk, plus wheat), where in-quota tariffs are 50 per cent, and above quota tariffs are at the same level as those settled by NAFTA in 1994. TRQs for Most Favored Nation (MFN) were fixed according the levels of imports during previous years, but taking into account the quotas that the Mexican government had already granted to Canada and the U.S. under NAFTA's TRQs regime. So, in the limited sense given by the later condition, the concessions that Mexico granted to Canada and the US under NAFTA have been extended to the minimum access commitment of Mexico under the Uruguay Round. Mexico also settled TRQs for wheat and gave a bigger access to powdered milk (Table 4).

In addition to the inclusion of the already settled bigger quota access and lower off-quota tariffs to Canada and the US, the main difference between the commitments of Mexico in NAFTA and in WTO is that whereas by the years 2003 or 2008 Mexico will abolish all border protection of imports from Canada and to the US, it will maintain the 1995's quota levels and off-quota tariffs, and will reduce tariffs to MFN by an average of 24 per cent from 1995 to 2000.

Mexico has included a safeguard clause for several agricultural products. In NAFTA, it can be used as a "countervailing mechanism" when an increase of imports represent a "considerable menace" or a "serious damage" to the sector in question. Under this event, the measures to be taken are either to suspend the tariff reduction process or to use (to "snap back" to) the base tariff settled in 1994. In the WTO, the Mexican government is allowed to set additional import taxes when "imports rise due to low import prices" (Shagam and Plunkett: 1997, and OCDE: 1997).

*Changes in domestic pricing policies*¹¹

¹¹ See OCDE: 1997 for a detailed discussion of current agricultural price policies in Mexico.

The study of CONASUPO as a STE in the international trade context has to take into account both, protection and the price policies to support producers. This is so because by granting farmers a buyer for their crops at prices above the international prices and selling to food processors these crops at subsidized prices, a STE isolates domestic producers from international competition.

Up to 1989 CONASUPO bought part of the domestic production of twelve crops (corn, beans, wheat, barley, rice, sorghum, soy, sunflower, cotton seeds, copra, sunflower and sesame). During 1990, the Company reduced its market interventions to corn, beans and powdered milk, and producers' price supports (or guaranteed prices) were abolished for all crops, but for beans and corn. However, the scheme of price supports to beans and corn farmers was reformed in 1995, so as to transform CONASUPO to be just a "last instance buyer" of these two crops.

In addition to the reduction of the crops covered by guaranteed prices, a process of regionalizing of government supports began, and since its creation in 1991, ASERCA has been substituting CONASUPO as a major player in the food chain. In this latter movement, marketing supports of ASERCA to the producers of crops other than beans and corn, and ASERCA's direct income transfers to farmers have been substituting the traditional price and direct interventions that the government did through CONASUPO. ASERCA's creation and functions can be hence taken as the basis of the transition process towards a more liberated agricultural sector followed by the governments of Salinas and Zedillo. Nonetheless, the macroeconomic crisis of 1994-95, the reductions of the international prices of some crops in the following years and the current international financial problems have complicated the transition process towards an even more liberalized agricultural sector. These phenomena have meant year to year changes in the farmers' support and pricing policies of beans, corn, sorghum, soy and wheat¹². Notwithstanding this, something

¹² For example, in his Third Address to the Nation, President Zedillo declared that in 1996, and due to problems for marketing domestically produced sorghum, the Mexican government "granted marketing support" to 3 million metric tons of sorghum. This meant that around 44 percent of total domestic supply of the grain for 1996 had producer price supports to grant its domestic sales. In addition, and due to the reduction

can be said about the new policy schemes in the price arena, if we base this reflection on what have been the actions of Zedillo since the beginning of its Presidency in 1995 and his purposes for 1998 and 1999.

ASERCA is now in charge in granting supports to the producers of sorghum, soy and wheat. The reduction and reforms of these supports, and the marketing emphasize of ASERCA's actions could mean that there is a tendency for the domestic prices of these crops to be more linked to their international prices (see below). For these three crops, a scheme of "indifference prices" has been followed since the beginning of the nineties¹³. It is regional-specific and consists in fixing a "concentrated price" for the crop in question before the cropping season taking as a reference the international prices, together with transport costs. The producers sell their crop to the processors at the international price, and the government transfers to the farmers the difference between it and the concentrated price¹⁴. We study below the validity of the current government contention that under this scheme, and due to the impacts on prices of the peso devaluation of 1995, the processors of sorghum, soy and wheat (plus those of rice and barley) are in fact closer to buying at the international prices and free to import¹⁵.

Up to 1994, the Agricultural Council fixed the guaranteed price of corn and beans, which were administered by CONASUPO. In 1995 the peso devaluation and the rise of the international price of corn allowed Zedillo's Administration to eliminate domestic price supports for the grain. This meant that the ruling price in Mexico was linked to the international price, as well as a sharp reduction in CONASUPO's interventions. During this year CONASUPO did not imported corn and, from purchasing in 1994 the 45 per cent of the domestic production of the grain, in 1995 only bought the 20 per cent. However, and

of the international price of sorghum and wheat in 1996, the government sustained the producer prices of these crops (Zedillo: 1997).

¹³ Rice is not included in this pricing scheme; in fact, its price has been liberalized since 1990. However, supports for rice producers were granted in 1996 because of a drop in its real price (ASERCA: 1996).

¹⁴ Until 1994 a subsidy to white wheat bread producers was given to sustain the subsidy for the price of bread. The scheme has been abolished since then.

¹⁵ To the scheme of indifference prices, a program of price coverage in the international markets for these crops, plus cotton and corn, was added to protect the cost of imports and the income of farmers producing them. For example, during 1996, coverage for 91,920 mts. of wheat and 1.7 millions of corn were placed in the Commodity Exchanges of Chicago and New York. Zedillo: 1996.

due to the sharp decrease of the international price of corn, in 1996 Mexico followed an intermediate scheme of price fixation, by which the domestic price was settled regionally and between the guaranteed price and the international price. The price was called “base price” (ASERCA: May , 1977, pp. 10 and 13-14). In the winter season of 1996-1997, the scheme of price supports for corn changed again. Corn, together with beans were bought by CONASUPO at “indifference prices” in the production zone. The prices are region-specific and determined by the average of the international price according to the Chicago Commodity Exchange plus the international bases of arrival to Mexican port(s) and the operation costs of storage, transport, financial costs, etc. (SAGAR: July, 97, p. 22). Under this scheme, CONASUPO became a “last instance” buyer of white corn for human consumption in the sense that it grants buys of corn to those farmers that cannot get a price from the private sector higher than the indifference price (Zedillo: 1997).

The figures about the weight of CONASUPO's purchases on domestic production of corn (mainly white) and beans show that, in fact and during the last years, the Company has decreased its participation in the domestic markets of these two crops. During 1993 and 1994 CONASUPO bought around 45 per cent of the domestic supply of corn, whereas its purchases were reduced to 20.3 per cent during 1995, and to 8.8 per cent during 1996 (preliminary figures indicate that this weight increased to 19 per cent during 1997 and the government estimates that during 1998 it will be reduced again to around 12.5 per cent). As for corn, CONASUPO's weight on domestic purchases of beans have been reduced: from 30.5 per cent during 1993 to 24.8 per cent in 1994, to 18.3 per cent in 1995, and to around 8 per cent in the following two years (SAGAR data base).

Most of CONASUPO's sales of corn are to tortilla producers or "nixtamaleros" (they ground the corn and elaborate tortillas). In order to support the subsidy to tortilla consumers, CONASUPO provides the corn to them and sells it at a price that allows nixtamaleros a "reasonable" profit for their tortilla sales, which are done at a subsidized price. The other processors that receive a subsidy are the corn millers. They receive in cash a subsidy for the corn they buy directly in the domestic market ("at prices linked with the

international prices, Zedillo: 1997") and receive in that allows them a "reasonable" profit so as to support the consumers' tortilla subsidy program.

As said, a major program in the transformation of CONASUPO's support functions and in the transition process towards a more liberalized staple sector is PROCAMPO. ASERCA is in charge of the program that began in 1994 and was designed to substitute income transfers to the producers of barley, beans, corn, cotton, rice, sorghum, soy, sunflower and wheat for direct price supports. PROCAMPO consists in transferring income to those producers that cultivated these crops during the three years before its implementation or are cultivating them. The amount is per hectare and the same to all farmers (that is, the same amount per cultivated hectare is given to all farmers independently of the crop they produce). In addition to this, ASERCA has been granting recently marketing supports to the producers of cotton, rice, sorghum, soy and wheat of selected regions (during 1997 marketing support to corn producers was added).

Quantitative Analysis

Estimating the effective or equivalent protection that the interventions of CONASUPO grants or granted to domestic producers of staples, and to study empirically if the reforms of CONASUPO have meant significant changes in the structure of protection of major crops are difficult tasks. This is so not only due to the fact that the liberalization of the food chain is quite recent and still underway, but also because of the cyclical macroeconomic crises that the Mexican economy has faced during the last twenty years¹⁶.

Notwithstanding these limitations, we consider that an effort to do quantitative analysis is worth while: it is a way to extend the study of the impacts on effective protection that CONASUPO's reforms have had; it is also a form to study the validity of the government

¹⁶ There are also some problems of data availability to cover with consistent information a long period of time. These problems deepen for the cases of corn and beans because a considerable portion of the production of these crops is done in Mexico by small farmers for their own consumption. For example, it is estimated that in the nineties more than 35 percent of corn production is not marketed (see for example, Hernández, M.: 1998 and Yunez-Naude, A.: 1998).

contention that the agricultural policy reforms have led to a freer international trade of the crops formerly controlled by CONASUPO¹⁷.

We did the analysis for major crops (corn, barley, beans¹⁸, rice, sorghum, soy, and wheat), gathering data of variables relevant to CONASUPO's interventions (such as the crops' domestic and international prices). The data are yearly, from 1970 to 1996 or 1997¹⁹ and, according to the previous discussion, the period was divided into two: the first one is when there were strong state interventions (1970 to 1991), and the second period is when staple markets were subject to a process of liberalization (1992 to 1996 or 1997). With this basis, two sets of econometric exercises were done: to study if there have been significant changes in tariff equivalents of the crops controlled by CONASUPO and if the reforms of CONASUPO have meant that the domestic markets of these crops are more linked to their world markets. In other words, we studied empirically whether or not state trading in Mexico has decreased.

The first type of quantitative analysis uses estimations of tariff equivalents, and the second is based on a price transmission model (details are in the Annex)²⁰.

The main conclusions from our tests are the following (a summary of the results is in Table 6):

- 1) CONASUPO's (and/or the government) interventions in *barley* have responded to both domestic and international signals and there is not clear evidence that this has changed from 1992 to 1996.
- 2) The isolation of the domestic prices of *beans* from the international prices since 1970 prevailed from 1992 to 1996.

¹⁷ In addition, no research of this sort has been done. The exceptions are: the study for wheat by Abbott and Young: 1997, the qualifications of producer and consumer subsidy equivalents estimated by the ERS-USDA, and the estimations of market price supports done by OCDE (see below).

¹⁸ Notwithstanding that the case of beans is special (see above), we decided to include it in our calculations.

¹⁹ The exceptions are barley and beans. For barley the data is from 1979 to 1996, and for beans from 1976 to 1996.

²⁰ We also estimated a net import demand model, but the results are poor for our purposes (see the Annex).

- 3) There is evidence that both, domestic and international prices had influenced *corn* markets in Mexico, and there is some evidence that the protection given to domestic corn producers through guaranteed prices has decreased beginning in 1992.
- 4) There is evidence that structural change has been present in *rice* markets during the last six years.
- 5) Notwithstanding that some of the econometric results for *sorghum* are poor, there is some evidence that, beginning in 1992, this crop is more linked to its international market.
- 6) The isolation from the international markets that *soy* producers enjoyed has changed since 1992.
- 7) There is no evidence that the relative isolation of Mexican *wheat* producers has changed²¹.

These results are just indicative of the impacts on trade protection caused by the reforms to CONASUPO and, in general, by the changes on agricultural policies that the Mexican governments have been conducting recently. This is because the period when serious reforms to CONASUPO began goes back to only six years, and further reductions in granted protection and in CONASUPO's interventions in domestic markets for the studied crops were implemented later, in 1994, when NAFTA began, and in 1995, when the Mexican government began to follow the Uruguay Round accords. Finally, the competitiveness of domestic producers has been somehow enhanced since 1995, because of the continuous depreciation of the peso.

That agricultural liberalization has been extended when President Zedillo took power was documented above, and this is confirmed by estimations of effective protection using OCDE figures. According to these calculations, the nominal protection coefficient for white corn decreased from 109% to 51% from 1993 to 1994 and to 24.13% in 1995, and that for yellow corn from 77% to 28% and to 5% during the same years. Likewise, OCDE figures indicate that a similar tendency applies to barley, sorghum, soy and wheat, whereas protection to rice has been low or negative since 1991²². In addition, these estimations

²¹ The latter result coincides with that of Abbott and Young: 1997.

²² A similar conclusion can be obtained from the estimations of effective protection that we used for our empirical analysis.

indicate that from 1994 or 1995 to 1996, granted protection to these crops has not been higher than bounded tariffs under NAFTA and/or WTO (see Table 7).

CONASUPO current activities, the issue of competition and future developments

Mexico's agricultural policies have been transformed radically during this decade, and CONASUPO has been included in this process of change. However, the reforms of agriculture to lead the sector to a more liberalized context have taken time, and it was not until the beginning of NAFTA when clearer signs of the elimination of effective and border protection of major crops emerged. In fact, our study shows that there is evidence confirming the official stand that from 1992 --and specially so since 1994/5-- the economics of crops on which COPNASUPO or other governmental entities had or still has some control have become more linked to the rules of international competition. This is the case of rice and soy²³ since 1992 and for barley, corn, sorghum and wheat since 1994²⁴. Notwithstanding that the strong devaluation of the peso during 1995 made more competitive the Mexican producers of these latter crops (making easier to follow the reduction of their protection), there is evidence that the current Administration is committed to sustain its freer trade policies.

The reforms to CONASUPO have transformed the Company: from being a STE controlling imports, granting strong protection to Mexican farmers and deeply influencing domestic markets of major grains and oilseeds, now, CONASUPO just has some control over corn, beans and powdered milk. All this is reflected by the fact that CONASUPO has not been registered as a STE in the WTO, nor has been subject to trade disputes.

In summary, the removal of guaranteed prices settled by CONASUPO, the elimination of CONASUPO's involvement in food processing, the abolition of import licensing, the freer trade purposes of President Zedillo and the implementation of NAFTA and the Uruguay Round accords are all leading to a freer trade of the agricultural sector of Mexico.

²³ From 1994 or before, trade of oilseeds other than soy on which CONASUPO intervened is quite free.

²⁴ As said before, the case of beans is special, since Mexico is almost self sufficient in the production of the type of beans preferred by its population.

Notwithstanding the above, government supports to domestic staple producers in aspects other than prices or import controls --such as direct income transfers, marketing supports²⁵ and input and consumer subsidies-- increased during the first years of the nineteen's, but decreased in 1995 (OCDE: 1997, Chapter III)²⁶. This later fact, together with: the reduced role of CONASUPO in the markets of corn, beans and powdered milk that began in the same year; the application of Mexico's trade commitments under NAFTA and the WTO; and the Zedillo's government plans to finish the disincorporation of BORUCONSA and to eliminate the tortilla subsidy, confirm our proposal to define a third stage of the process of dismantling CONASUPO. When this step is completed, the agriculture of Mexico will be in a situation where the private sector will become the major player in every aspect of the food chain and where international market signals will rule producers' decisions.

An important decision to further liberalize Mexico's crop agricultural sector is to abolish the tortilla subsidy. The purpose of the current Administration is to eliminate by the end of 1998 the subsidy that CONASUPO still grants to corn processors to sustain its cheap tortilla program. Its recent announcement has caused strong criticisms amongst center-left political groups since, if taken, the decision would mean the completion of the elimination of CONASUPO's historical functions. This is so because its participation in the beans markets is not important (for example, and according to official data, from 1996 to 1998 CONASUPO's purchases of beans are less than 9 per cent of its total domestic supply). Corn is hence, the only staple where CONASUPO still has some control. However, if the tortilla subsidy is eliminated, there is no reason for CONASUPO to provide corn to the "nixtamaleros" (and so, to store and to import corn for this purpose). So, both nixtamaleros

²⁵ In addition to the current marketing supports of ASERCA, the government is in the process of implementing a Pledge Program for wheat, sorghum, soy beans, rice, cartamus, cotton and barely. With it, producers that want to reduce price risks by selecting the best selling period will be able to deposit their crops in warehouses (private or in ANDSA and BORUCONSA until they are fully privatized). The price of their deposited crops will be a percent of the indifference price (estimated by using international prices as reference) at the point of consumption. The state will not have the obligation to buy the deposited crops. (ASERCA: May 97?, p. 42).

²⁶ Compared with other OCDE countries, the support that the Mexican government has given to agriculture is lower. According to OCDE figures, the net producer subsidy equivalent for Mexico was 34% from 1979 to 1982, it dropped to 3% during 1983 to 1988, raised again to 30% during 1989-94 and dropped to 3% during 1995. For the US these percentages are lower and similar for Canada, whereas those for the OCDE countries taken together have been between 5% to 35% higher (OCDE: 1997, pp. 117-8).

and corn millers will be free to buy corn in the domestic market and to compete with fructose producers and with cattle feeders for the quota allocations of the grain.

In summary, with the elimination of the tortilla subsidy, the only function of CONASUPO could be stock piling of corn for food security and market stabilization purposes.

Issues

Some challenges prevail for the future development of the Mexican agricultural sector. One is general, related to macroeconomic stabilization. The others are more specific to the agricultural sector: food security, the protection of domestic producers from sharp fluctuations of international prices, the reduction of the prevailing heterogeneity of rural producers, and the protection of rural natural resources.

A necessary condition for producers to face international competition is to be in a context of stable monetary variables, and this have been yet to be attained despite the last three Administrations' efforts.

The establishment of buffer stocks, the participation in international future markets for grains and the use of safeguards could mean the accomplishment of food security and more stable staple prices. However, the capacity of stock piling by CONASUPO is now limited and will disappear with the elimination of state warehouses. In any case, and up to now, it is not clear if the current Administration is concerned about food security and in the design of a strategy to accomplish this objective.

Notwithstanding that the above is a relevant issue, there are two other problems that have to be seriously considered in Mexico's agricultural strategies: to combat rural poverty and the dual structure of Mexico's agriculture, and to protect its natural environment.

A considerable portion of corn production in Mexico is done by poor, peasant or small household-farmers, and this will be more so when capitalized or entrepreneurial farmers

switch to the production of other crops as government supports are reduced and as the international price of this grain continues to decrease.

Peasant farmers use traditional technology, and an important part of the corn produced by them is for their own consumption. Due to the very low income levels of these type of producers (hence their need to produce staples to secure the subsistence of their families), they overexploit rural resources. In addition, the lack of proper roads and communications where their villages and/or farming fields are located, peasant farmers did not benefit from guaranteed prices, and today, the poorer and less communicated portion of them have not received PROCAMPO's income transfers. The isolation of small farmers also mean that they face incomplete markets and so, the notion of competition is not applicable for a big portion of corn producers in Mexico²⁷. This situation has been overseen by some researchers as well as by the Salinas' government. Although the current Administration is more concious about the segmentation of a protions of domestic corn markets, it has yet to define and implement a coherent strategy for the rural poor to promote their integration to the markets as producers of staples, to increase their incomes, and to develop the conditions to attain the sustainability of rural production.

Glossary of Terms

ALADI: Asociacion Latinoamericana de Integración (Latin American Association of Integration)

ASERCA: Apoyos y Servicios a la Comercializacion Agropecuaria (Support and Services for the Marketing of Agricultural and Livestock Products)

ANDSA: Almacenes Nacionales de Depósito (National Warehouses)

BORUCONSA: Bodegas Rurales CONSAUPO, S.A. (Rural Warehouses)

CONASUPO: Compañía Nacional de Subsistencia Populares (National Company of Popular Subsistencies)

CECONCA: Extention Programs of CONASUPO

DICONSA (or DICCONSA): Distribuidora e Impulsora Comercial CONASUPO (Distribution and Trade Promoting)

ERS: US Department of Agriculture's Economic Research Service

FIA: Fondo para la Industria Asociada (Finance for the Associated Industries)

LICONSA: Leche Industrializada (Industrialized Milk)

²⁷ This is precisesly one of the reasons why corn supply in Mexico has not dropped with the reforms as predicted by those that ignore the conditions under which small farmers produce in Mexico. A discussion is in Taylor, E. A. Yunez-Naude and S. Hampton: forthcoming.

MERCOSUR: Mercado Común de Sud American (South American Common Market)
ICONSA: Industrias CONASUPO (CONASUPO's Industries)
IMPECSA: Impulsora del Pequeño Comercio (Small Commerce Support Company.
MICONSA: Maíz Industrializado (Industrialized Corn)
OCDE: Organization for Cooperation and Economic Development
PACE: Programa de Apoyo a la Comercialización Ejidal (marketing support program for ejidatario producers)
PROCAMPO: Decoupled Program of Income Transfers to Staple Producers
PRONASOL or SOLIDARIDAD: Programa Nacional de Solidaridad (National Solidarity Program)
TRICONSA Trigo Industrializado (Industrialized Wheat)
SAGAR: Secretaría de Agricultura, Ganadería y Desarrollo Rural (Ministry of Agriculture, Livestock and Rural Development)
SARH: Secretaría de Agricultura y Recursos Hidráulicos (Ministry of Agriculture and Water Resources).
SECOFI: Secretaría de Comercio y Fomento Industrial (Ministry of Commerce and Industrial Promotion)
SEDESOL: Secretaría de Desarrollo Social

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