

GOVERNMENT SUBSIDIES FOR PRICE RISKS: THE CASE OF MAIZE PRODUCERS IN MEXICO

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1. INTRODUCTION

From the decade of the 1980's, Latin American and Third World countries began to apply structural adjustment programs with the consequent market liberalization and withdrawal of the State. In the case of Mexico, the government implemented new subsidies for the agricultural sector as the marketing support program directed to grain producers. This program focuses on protecting farmers from the international price fluctuations (price hedging), being its analysis the main purpose of this article. We will study the case of the maize (yellow) producers located in the state of Chihuahua, the most important producer of that grain in Mexico. The characteristics, limitations and vulnerabilities of the price hedging program will be analyzed.

2. THE PRICE HEDGING PROGRAM

Within the context of the hedging program (PH), producers' organizations and agribusiness sign buyer-seller contracts before the harvesting period. After that, the government institution ASERCA (*Apoyos y Servicios a la Comercialización Agropecuaria*) protect the volume of grain included in the contracts by participating in price hedging in the grain futures market (Chicago Board of Trade or CBOT). This eliminates the risk for involved parties (producers and buyers) from future fluctuations in grain prices that could be detrimental. Producers receive a fixed price for their grain, linked to the international price at the moment of the contract, and must be paid in US Dollars at the exchange rate reported by the Bank of Mexico ("Fix"). The subsidy that the government offers both to producers and buyers refer to the cost of participating in price hedging in the future market, called *primas*. During the last years, the price hedging program has been very dynamic in terms of the supported volume of production, as well as in the assigned budget, being maize the main product.

3. YELLOW MAIZE PRODUCTION IN CHIHUAHUA

Yellow maize is the main grain imported by Mexico. During the last years an annual average of 8.5 million of tons has been acquired mainly from United States. 70% of that that product is destined to the production of animal feed. The domestic production (2.2 million tons) only covers 20% of the Mexican consumption, being its increase one of the government objectives through the price hedging program. The majority of the support for that grain has been directed to the state of Chihuahua, the main producer of yellow maize, being Mennonites the principal producers. In 2013, almost 1 million of tons of yellow maize were supported in Chihuahua, which meant 90% of the state production. The main seller of the grain is the Mennonites' organization (UNIPRO), whereas the buyer is the animal feed industry (ALMEX, Nuplen, CP Ingredientes and Harinas).

4. EFFECTS OF THE PH PROGRAM ON PRODUCERS AND BUYERS

The CF and PH programs have given farmers important benefits, as they can assure a market for their grain at a certain price known before the harvest. It represents a security that is not present in the open market, where they usually get smaller prices. Buyers get the grain required in certain volume and quality and, as well as the producers, are protected against future fluctuations in grain prices. The Mennonites of Chihuahua have a strong organization and an important degree of capitalization, obtaining high yields in maize cultivation. However, the PH program has not always benefited them, as breaching of contracts has occurred, mainly on the part of the buyers as a consequence of the Mexican peso devaluation. Other deficiencies of the government program have been excessive bureaucracy and delays in the payments or subsidies directed to producers.

The research presented here reveals that the principal beneficiaries of the marketing subsidies for grains are agribusiness, marketing firms, and medium and large-scale producers. The participation of firms in the PH program has depended, and will continue to depend, on the prices that they have to pay for grains under this program in comparison to the free market, the exchange rate, and government subsidies.

5. FINAL REFLEXIONS

Price fluctuations are an important concern among farmers, as important as climate disasters. This situation is worsening as international prices of grains are related to speculation processes at international markets. The vulnerability of the PH program rests on two unstable pillars: international prices and the exchange rate (US Dollar vs. Mexican Peso). The government program is attractive to firms and other buyers only if the exchange rate is stable or if there is an overvaluation of the Mexican Peso. If the Peso is devaluated, the companies either do not participate in the program, or do not honor the contracts, as the present and other study case has revealed.

Another failure of the PH program is the contract breach (on the part of producers, marketing firms and agribusiness); the contracted grain volume is not delivered because of climate disaster, but also when the prices in the open market are higher than the contract price, which represents a great waste of federal funds.

And only a small amount of grain producers in Mexico are benefited from the PH program: in 2011, for example, 436, 329 farmers got these subsidies, which represented only 11% of the Mexican grain producers (commercial and self-consumption).

The geographical concentration of the subsidies of the PH program is also evident, as the majority of the government resources are directed to the northern states of Mexico, where large and medium producers prevail. In 2012, for example, 72% of the beneficiaries (farmers) were located in the states of Sinaloa, Tamaulipas, Sonora y Chihuahua. It is interesting to mention that this geographical concentration is also common in the other main programs that support the agricultural sector in Mexico.

In spite of the subsidies given for marketing grains, producers in Mexico face the decline of the international prices of grains, as it has happened during 2013 and 2014. In the case of yellow maize, for example, the price of 2014 was only 178 USD/ton, whereas in 2012 this price was 323 USD/ton.

The findings of the research presented in this article reveal the necessity of reshaping the agricultural policy in Mexico, directing the public resources to not regressive programs, as the PH. Other supports to farmers as direct payments and subsidies to credit, insurances and climate disasters are needed to reinforce.