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Mexico Announces Support Program for Sinaloa White Corn

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Report Highlights:

On October 31, 2008, Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) announced in the Mexican Federal Register (*Diario Oficial*) the specific guidelines for support programs available for Sinaloa white corn during the 2007-08 fall/winter season. It is estimated that through this program SAGARPA will provide \$1.280 billion pesos (approximately U.S. \$100 million dollars) of support covering 3.85 millions tons of white corn production.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Mexico City [MX1]
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Introduction: This report summarizes the specific operational guidelines for obtaining supports on selected agricultural products published in Mexico's "*Diario Oficial*" (Federal Register) on October 31, 2008.

Disclaimer: This summary is based on a *cursory* review of the subject announcements and therefore should not, under any circumstances, be viewed as a definitive reading of the regulations in question, or of its implications for U.S. agricultural export trade interests. In the event of a discrepancy or discrepancies between this summary and the complete regulation or announcement as published in Spanish, the latter shall prevail.

FAS/Mexico's Executive Summary:

On October 31, 2008, Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) announced the specific guidelines establishing the mechanisms by which SAGARPA will provide economic support to white corn producers of Sinaloa, during the 2007-08 fall/winter planting season.

According to this announcement, SAGARPA's National Technical Committee held several sessions (January 17, February 21, and March 27, 2008) in order to design and authorize the specific programs under the "Advance White Corn Purchases" for Sinaloa, which provide payments for freight, storage and commodity hedging costs. The objectives of this program are:

- a) To guarantee corn growers the advance sale of their crops through forward contracts;
- b) To guarantee buyers a supply of domestic white corn;
- c) To provide certainty to the production-consumption process;
- d) To promote order in the corn market.

These specific guidelines are based on the General Operational Regulations (REGLAS) that SAGARPA published for all support programs on December 31, 2007. The announcement states that through SAGARPA's Support and Services for Agriculture and Livestock Marketing Agency (ASERCA - a decentralized administrative body within SAGARPA providing commercial support to farmers) support payments will be provided for freight, and storage and commodity hedging costs of white corn grown in the Mexican state of Sinaloa. (See [MX 8017](#) and [MX7024](#)).

The support is limited to 3.85 million metric tons (MMT), which is divided into two sub-programs:

- 1) 3,250,000 MT under the "Advance Purchasing Program"
- 2) 600,000 MT under the "Emergent Advance Purchasing Program"

Title of the Announcement: "Specific Operation Guidelines to Maintain Market Order to Orchestrate Advance White Corn Purchases for the 2007-08 Fall/Winter Agricultural Crop-Cycle from the State of Sinaloa."

Type of Regulation: Operational

Important Dates:

1. Publication Date: October 31, 2008

2. Effective Date: October 31, 2008

Eligible Commodities: White Corn

Other important features of the new program:

The “target population” of this Program is defined as “growers, directly or through their organizations, consumers and traders interested in acquiring corn and that have purchased forward contracts. These forward contracts must show proof that were registered and validated in Sinaloa’s ASERCA office during the period February 6 – March 6, 2008, for the “Advance Purchasing Program” and April 10 -15 and April 17-18, 2008 for the “Emergent Advance Purchasing Program.”

Qualified participants from the objective population under the Program then qualify for support for commodity hedging, storage and freight of white corn for both human consumption, as well as use in animal feed consumption. According to ASERCA, of the total amount of Sinaloa’s white corn supported through the programs (3.850 MMT), approximately 2.350 MMT was for human consumption and the rest for animal feed consumption.

The breakdown of each type of support is as follows:

Hedging Support: The main objective of this support is to protect corn growers, buyers and traders from adverse international price changes, diminishing risk through the purchase of options. In addition, another stated objective of the program is to promote a financial and business culture among the diverse agricultural participants.

A breakdown of these payments follows.

ASERCA'S COMMODITY HEDGING PROGRAM				
TYPE OF PARTICIPANT	OPTIONS PURCHASED	ASERCA SUPPORT FOR OPTION PURCHASES	PARTICIPANT CONTRIBUTION	ASERCA RECOVERY
Advance Purchasing Program:				
Producers	CALL	100% of the cost of the option	0% of the cost of the option	50% of the cost of the option
Buyers	PUT	50% of the cost of the option	50% of the cost of the option	0% of the cost of the option
Emergent Advance Purchasing Program:				
Producers	CALL	100% of the cost of the option	0% of the cost of the option	100% of the cost of the option
Buyers	PUT	0% of the cost of the option	0% of the cost of the option	0% of the cost of the option

Storage Support: The level of support is determined by the months of corn consumption and/or sales that buyers have acquired relative to their historical purchases. In case the participant acquires a volume in excess of six months worth of consumption and/or sales, the applicable support by ton for this volume will remain the same as in the sixth month of the following table.

ASERCA'S STORAGE SUPPORT PROGRAM	
Amount of Purchases in terms of Monthly Consumption	ASERCA SUPPORT (Pesos/Ton)
Purchases worth 1 month's consumption	0
Purchases worth 2 months' consumption	85
Purchases worth 3 months' consumption	110
Purchases worth 4 months' consumption	135
Purchases worth 5 months' consumption	160
Purchases worth 6 months' consumption	185
Purchases worth more than 6 months' consumption	185

U.S. \$ 1.00= 12.80 pesos

Support for Freight: Buyers who have purchased white corn from Sinaloa through the Advanced White Corn Purchase program are eligible for a per-ton transportation support payment. The level of the support payment is determined by the Mexican state in which the buyer is located. The specific breakdown of payments by state for buyers of white corn follows.

ASERCA'S FREIGHT SUPPORT PROGRAM	
BUYER STATE	ASERCA SUPPORT (Pesos/Ton)
Aguascalientes	160
South Baja California	400
Colima	130
Mexico City	190
Durango, Chihuahua, Coahuila	200
State of Mexico	205
Guanajuato	145
Guerrero	230
Hidalgo	195
Jalisco	120
Michoacan	200
Morelos	195
Nayarit	90
Puebla, Oaxaca	220
Queretaro	185
San Luis Potosi, Nuevo Leon, Tamaulipas	200
Sinaloa	45
Sonora, Baja California	80
Tlaxcala	230
North Veracruz	200
South Veracruz, Chiapas, Tabasco, Campeche, Yucatan, Quintana Roo	230
Zacatecas	160

U.S. \$ 1.00= 12.80 pesos

FAS/Mexico Comments:

SAGARPA's rationale for providing these supports specifically to white corn produced in the state of Sinaloa is the recognition that it must help the sector overcome logistical and infrastructure limitations in marketing such large commercial volumes of fall/winter corn production that, although produced principally in Sinaloa, is marketed, processed and consumed in other states. By most accounts the program has been successful in encouraging buyers to purchase domestic supplies while giving producers security that they will receive sufficient prices to be profitable. Both producers and buyers are willing to enter into forward purchase contracts knowing that they are protected from large price swings through the option purchases. In addition, transportation and storage support to allow buyers to purchase large domestic quantities but at the same time implement rational consumption patterns. SAGARPA estimates Sinaloa white corn production at 4.96 MMT in the 2007/08 fall/winter planting season, 4.3 percent higher than the previous year. Sinaloa accounts for approximately 75 percent of Mexico's fall/winter white corn production.

Industry sources stated that initially ASERCA had announced preliminary supports only for 3.25 MMT. However, the majority of this volume was negotiated under the forward contract purchases in only a few hands, mainly between large traders and tortilla makers with the corn growers. As a result, many medium and small buyers of the animal feed industry complained that this situation was unfair. Therefore, ASERCA had to increase the volume subsidized (600,000 MT) and announced the "Emergent Advance Purchasing Program".

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Internet Connections:

FAS Mexico Web Site: We are available at <http://www.fas-la.com/mexico> or visit our headquarter's home page at <http://www.fas.usda.gov> for a complete selection of FAS' worldwide agricultural reporting.

Useful Mexican Web Sites:

Mexico's equivalent of the Department of Agriculture (SAGARPA) can be found at www.sagarpa.gob.mx and Mexico's equivalent of the Department of Commerce (SE) can be found at www.se.gob.mx. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.

Relevant Reports Submitted by FAS/Mexico City

MX7016 Mexico Announces 2007 Agricultural Programs
<http://www.fas.usda.gov/gainfiles/200703/146280439.pdf>

MX7071 Mexico Announces Support Programs for Sinaloa White Corn
<http://www.fas.usda.gov/gainfiles/200710/146292690.pdf>

MX8017 Grain & Feed Annual
<http://www.fas.usda.gov/gainfiles/200803/146293969.doc>