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Mexico Announces New Corn and Sorghum Support Programs

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Approved By:

Melinda Sallyards

Prepared By:

Benjamin Juarez and Tim Harrison

Report Highlights:

On April 3, 2018, Mexico published four notices announcing incentive programs intended to address an oversupply of corn in certain parts of the country, as well as some storage problems, damaged infrastructure due to the earthquakes in September 2017, and a decline in prices of corn and sorghum.

In particular, the incentives target corn used for starch and human consumption in the Bajio region, yellow corn produced in Chiapas, and sorghum harvested in Oaxaca in the 2017 spring-summer crop cycle.

General Information:

Introduction: This report summarizes four notices that announce incentives to address marketing problems faced by corn cultivated in the 2017 spring-summer crop cycle in the states of Guanajuato, Jalisco, Michoacan, Nayarit, Chiapas, as well as sorghum from the state of Oaxaca. These announcements were published by Mexico's Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) in the "*Diario Oficial*" (Federal Register) on April 3, 2018.

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.

Titles of the Notices:

[A.](#) Notice to announce the incentive to address specific marketing problems of corn from the 2017 spring-summer crop cycle in the states of Guanajuato, Jalisco, and Michoacán for human and starch consumption, under the Commercialization Support Program.

[B.](#) Notice to announce the incentive to address specific marketing problems of corn from the 2017 spring-summer crop cycle in the states of Guanajuato, Jalisco, Michoacán, and Nayarit for livestock consumption, under the Commercialization Support Program.

[C.](#) Notice to announce the incentive to address specific marketing problems of yellow corn from the 2017 spring-summer crop cycle in the state of Chiapas, under the Commercialization Support Program.

[D.](#) Notice to announce the incentive to address specific marketing problems of sorghum from the 2017 spring-summer crop cycle in the state of Oaxaca, under the Commercialization Support Program.

Important Dates:

1. Publication Date: April 3, 2018

2. Effective Date: April 4, 2018,

Eligible Commodities: Corn and Sorghum

General Summary

These four notices announce new temporary incentive programs to encourage consumption of Mexican corn (from several states) and sorghum (only for the state of Oaxaca), due to oversupply in key regions, storage problems, and a decline in international prices. The newly-announced programs include:

- A \$240.00 MXN per ton (roughly \$13.26 USD/MT) incentive for up to 500,000 metric tons (MT) of corn to be used in Guanajuato, Jalisco, and Michoacan (known as the Bajío region) for human and starch consumptions. A budget of up to \$120 million MXN (\$6.6 million USD) is allocated for this program.
- A \$300 MXN per ton (\$16.6 USD/MT) incentive for up to 110,000 MT of corn to be consumed by the livestock sector, according to the following breakdown by state:

STATE	VOLUME (MT)
GUANAJUATO, JALISCO, and MICHOACAN	96,000
NAYARIT	14,000
TOTAL	110,000

A budget of \$33 million MXN (\$1.8 million USD) has been allocated for this program.

- A \$200 MXN per ton incentive (\$11.00 USD/MT) for up to 54,000 MT of yellow corn to be sold by Chiapas farmers, subject to budgetary availability. A budget of \$10.8 million MXN (around \$597,000 USD) was allocated to this program.
- A \$250 MXN per ton incentive (\$13.80 USD/MT) for up to 12,500 MT of sorghum to be sold by Oaxaca farmers, subject to budgetary availability. A budget of \$3.15 million MXN (around \$173,000 USD) was allocated to this program.

For additional information regarding the justification for each program, please refer to the “Detailed Summary” section below.

Background

Private sources have indicated that as a result of budget cutbacks to the main support programs, including the Forward Contract Program (see 2018 Gain Report [MX8010](#)), the support coverage for buyers participating in this scheme was eliminated. The support to growers was reduced from 85 percent to 75 percent of the coverage cost (i.e. “put” or “call”). In addition, the level of the “basis” established under the terms of this program by the Agency for Marketing Services and Development of Agricultural Markets (ASERCA) for the 2016/17 fall-winter and 2017 spring-summer crop cycles were not competitive for buyers, particularly those in the livestock and animal feed sector, but also for the starch industry and even tortilla makers. ASERCA’s “basis” prices for white corn are inflated by a premium, as white corn is preferred for tortillas (probably the most important source of calories for many Mexicans) in the domestic food market. These factors resulted in many buyers withdrawing from the program and finding better-priced alternatives in the international market, and even domestically outside of the traditional support programs

In addition, sources noted that, following the announcement of similar supports for the livestock sector in November 2017 (See 2017 GAIN Report [MX7055](#)), the starch and tortilla makers industries approached SAGARPA to obtain similar supports. Similarly, producers in the state of Nayarit were not included in the previously-announced livestock program, and asked to be included as well.

Detailed Summary of Notices

Each of the notices indicates that the Marketing Support Program is part of SAGARPA’s programmatic structure for fiscal year 2018, which includes the Operational Rules for the Commercialization and Market Development. As a part of these Operational Rules, incentives were defined to address specific commercialization problems. Following is a rough translation/summary of the justification for each notice.

Notice A: Notice to announce the incentive to address specific marketing problems of corn from the 2017 spring-summer crop cycle in the states of Guanajuato, Jalisco, and Michoacán for human and starch consumption, under the Commercialization Support Program.

Justification: Notice “A” states that this incentive is intended to support [increase] the volume of corn produced in the states of Guanajuato, Jalisco, and Michoacan during the 2017 spring-summer crop cycle that is actually delivered under the Forward Contract Program, particularly corn intended for the human and starch consumption sectors. Also, the announcement notes that there is a downward trend in the corn contract price as of March 2018, which is expected to continue due to the estimated record U.S. corn stocks of approximately 63 MMT for 2018. The incentive outlined in Notice A is intended to guarantee the commercialization of the eligible product [i.e. corn] under competitive conditions for the grower (providing income certainty). It is considered necessary to compensate the buyers for the difference between free market prices and the average price registered in the Forward Contract Program scheme, for human and starch consumption, so that buyers in this sector continue to participate in this scheme, due to the fall in corn prices in the states of Guanajuato, Jalisco, and Michoacán.

Notice B: Notice to announce the incentive to address specific marketing problems of corn from the 2017 spring-summer crop cycle in the states of Guanajuato, Jalisco, Michoacán, and Nayarit for livestock consumption, under the Commercialization Support Program.

Justification: Notice “B” states that, to guarantee growers the sale of their crops under competitive conditions under the terms established in the Forward Contract scheme for the 2017 spring-summer crop cycle, on November 16, 2017, SAGARPA published the "Notice to announce the incentive to address specific marketing problems of white corn growing in the 2017 spring-summer crop cycle, in the states of Guanajuato, Jalisco, and Michoacan for livestock consumption, under the Commercialization Support Program”, hereinafter IPEC Notice SS 2017. The notice was intended to compensate buyers in that sector for part of the commercialization expenses of the eligible product [i.e., white corn]. According to this objective, and considering that during the operation of IPEC Notice SS 2017, requests were received for a volume greater than the volume that could be supported based on 2017 budget availability, it is necessary to reassign 2018 resources to support a larger volume of the eligible product under this program. The current notice will address the livestock sector petitions by supporting additional volumes registered in the Forward Contract scheme and including the state of Nayarit, which is facing the same issues as the other states mentioned in the previous announcement.

Notice C: Notice to announce the incentive to address specific marketing problems of yellow corn from the 2017 spring-summer crop cycle in the state of Chiapas, under the Commercialization Support Program.

Justification: Notice “C” indicates that this incentive is intended to support producers from the state of Chiapas to increase the registered volume of yellow corn under the Forward Contract Program in the 2017 spring-summer crop cycle. It notes that for this crop cycle, a total of 73,156 MT of yellow corn were registered in the Forward Contract Program, which reflects a 33.8 percent decrease compared to the 2016 spring-summer crop cycle. As a result of the earthquakes that occurred in September of 2017, and the numerous aftershocks, Chiapas’ infrastructure and communication channels were affected, increasing the need for storage and conservation maneuvers to commercialize the eligible product [i.e. yellow corn]. The commercialization costs in Chiapas are higher than in Sinaloa (the state with the

highest level of technology) in activities such as: storage, fumigation, drying, and local and interstate freight costs. In addition to higher costs, infrastructure damage provoked a need to move grain to undamaged warehouses, as well as other costs that had not been foreseen.

Notice D: Notice to announce the incentive to address specific marketing problems of sorghum from the 2017 spring-summer crop cycle in the state of Oaxaca, under the Commercialization Support Program.

Justification: Notice “D” points out that, since sorghum is not listed on the CME of Chicago Board of Trade, its pricing is governed by the behavior of the corn contract. Corn’s downward trend is expected to continue, due to estimated record U.S. inventories of approximately 63 MMT for 2018. Further, the increase in the sorghum basis registered since September 2017 made it lose competitiveness compared to substitutes such as yellow corn for livestock consumption, discouraging subscriptions under the Forward Contract scheme. Notice D indicates that in the 2017 spring-summer crop cycle, a volume of 14,903 MT was pre-approved, of which only 2,413 MT was actually recorded. Therefore, 12,500 MT of sorghum would not be supported under the program. Additionally, the storage infrastructure in the state of Oaxaca is precarious, with 55.8 percent stored in outdoor facilities, unlike other states in which mechanized systems and equipment are used.

For More Information

FAS/Mexico Web Site: We are available at www.mexico-usda.com.mx or visit the FAS headquarters' home page at www.fas.usda.gov for a complete selection of FAS worldwide agricultural reporting.

Report Number	Title of Report	Date Submitted
MX8010	Slight Changes in Production as Grain Imports Continue Upward Trend	3/7/2018
MX8002	Corn, rice, and Sorghum Estimates Increased Slightly	1/18/2018
MX7055	Mexico Announces Three Incentives Programs to Address Corn Surplus	11/2/2017
MX7031	Slight Bump in corn Production, Smaller Wheat Harvest	9/14/2017
MX7024	Mexico Expects Strong Corn Crop Due to Favorable Weather	6/15/2017
MX7007	Average Production Expected as Consumption Growth Slows	3/14/2017
MX7001	Increased Acreage, Good Weather Boost Corn Production	2/3/2017