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# SECRETARIAT OF AGRICULTURE, LIVESTOCK AND RURAL DEVELOPMENT, MEXICO

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I would like to begin by adding to what was said about the meaning of “competitiveness”. It may not be possible to answer that question right now. We are certainly more aware of the subtle interrelationships between our three economies and how our competitiveness might be affected by the new interrelationships among the three agricultural sectors. Through the papers and related discussion, we have learned, not only of the changes in policy, but also about the increasing role of integration for producers and the concept of “harmonization”.

In fact, harmonization was approached in a very practical way yesterday. Comments were made as to what effect the North American Free Trade Agreement (NAFTA) and other policy harmonization measures have had on marketing and infrastructure. If you define clear long-term rules for participants, the private sector and private organizations will search for the best business opportunities available. They will always try to find a way to do business no matter how critical or unharmonized things look. In Mexico, by linking the price of most grains to international market references, companies like Cargill, Prudential and Merrill-Lynch are trying to correct the marketing problems in order to do business. For example, Prudential and Merrill-Lynch are operating commodity-backed operations in sugar and grains. They know that there are serious deficiencies in Mexican warehouses. They know that the Mexican market generally lacks trust in warehouse certificates. Still, they are doing business with these instruments. How are they doing this?

They are pinpointing specific projects and creating their own supervising units for their own programs. They are certificating their own warehouses. They are selecting very specific clients. They are not waiting for the government to reform the whole system. Continental, Dreyfus and Cargill are beginning to build silos and are planning new business strategies for grain consumers in specific regional markets.

Even producers and the government are having to design new strategies to survive and make use of the new instruments that harmonization provides. For example, linking domestic prices to international references gives Mexico the opportunity to use the Chicago Board of Trade and the Kansas City Board of Trade as instruments for managing risk for producers and for the government. Mexico has the *Risk Management for Producers* program which subsidizes the cost of options for producers.

The government also used these instruments to back its own loan support program. This was the case in 1992 when Mexico had to give subsidies to the wheat industry. The industry had to buy wheat from Mexican producers at a specific target price. The government refunded the difference between the target price and the international market price. The Mexican government used the Chicago Board of Trade to hedge the whole Mexican wheat crop. At one time, although nobody wants to believe this, Mexico controlled about 20 percent of the total positions on the futures market in Chicago. The Commodity Futures Trading Corporation had to call us and ask, "Okay, we think you are nice guys, but why are you doing this?" We told them we were just hedging our budget risks using market instruments.

In order to protect the budgetary allocations for the merchandising subsidy to the wheat milling industry, the federal government sold Chicago wheat futures contracts in different delivery months. All contracts were sold at prices that equaled or surpassed the futures price level used to allocate the initial budget subsidy payments. At the start of the harvest, Mexican wheat sales were made into the local market and part of the hedge was canceled. Later, when the wheat subsidy program was changed, the balance of the hedge was lifted, with all positions benefitting the federal government in its budgetary position.

Firms and the governments of the three countries are changing how business is done in Mexico. I believe that producers and the private sector will always be ahead of governments and policy reform. Even though our policies are designed to have official trade dispute settlement mechanisms, we are seeing a rising trend for private trade dispute settlement mechanisms. The private sector is finding more efficient ways to solve those problems. They are not waiting for the government to harmonize or reform laws.

For example, there is the specific case of tomatoes. You remember the tomato controversy with U.S. producers—the anti-dumping case that ended in an administered price agreement. We can also cite beef and livestock anti-dumping cases Mexico has with U.S. producers. They were satisfactorily solved by private trade dispute settlement. Also, we have a dumping case with wheat involving the Canadian Wheat Board and the Export Enhancement Program of the United States.

I believe that the practical ways of approaching harmonization or searching for new solutions should be stressed at future conferences. I would like to congratulate the organizers for the excellent job they did. I also want to congratulate the participants for the high-quality work which has been done to help us learn more about the new business environment for our economies.