

Executive Summary

This report analyses the effects of Mexico's ambitious reforms to agricultural and fisheries policies since 1990 and makes recommendations for further reforms. The evaluation is based on criteria for good agricultural and fisheries policy as agreed to by OECD countries. Such criteria, if implemented, would support economically healthy sectors that contribute to the wider economy, respect natural resources and use inputs effectively without resorting to distorting subsidies.

Agricultural policy

We commend Mexico for the direction of its agricultural policy reform over the last 15 years, and we note Mexico's achievements. The reforms have reduced the degree of commodity market distortion; improved the effectiveness of income transfers to producers; reduced consumer food costs; reduced the bias against rural areas in social programmes such as food aid; reduced the extreme regressivity of agricultural transfers; improved transparency of policies through decentralisation; have begun to recognise the mis-alignment of private and public incentives as regards use of land, water and other resources; and reduced the cost of agricultural policy in terms of total support in GDP, and the share of producer support in farm receipts.

We identify the remaining obstacles that lie between Mexico's current agricultural policy and a policy regime that is fully consistent with the principles defined by the OECD Ministers. The remaining restrictions to private land ownership prevent effective allocation of a critical asset, inhibit investment and limit the value of land to those with certified claims. The vast stretches of remaining communal land restrict development and resource management. Use of natural resources, such as water, remains mostly unmeasured and property rights are infrequently enforced, so the degree of exploitation is often not known and private decision-making is not aligned with public requirements. Most agricultural policy transfers are distributed regressively and even PROCAMPO, the least regressive of the large agricultural programmes, is not as redistributive as a poverty alleviation programme. Some of the highest obstacles are the remaining barriers to trade, payments tied to outputs (Target Income) and new energy subsidies. These policies do not provide much benefit to farmers for all their costs to consumers and taxpayers, and their unintended consequences include market distortions that tie producers to historically produced crops, resource depletion and a highly regressive distribution of benefits.

We recommend the following actions towards further reform. A common theme is to target government support more directly to objectives that are better defined as a way to improve policy effectiveness and transparency, while at the same time reducing the severity of unintended negative consequences.

- **Eliminate remaining trade barriers, and replace Target Income and energy subsidies.** Mexico should delineate clearly the objectives of these policies and target

those objectives. Current practices create distortions that bias production towards historically planted crops, are not very effective as income support, are regressive, and provoke over-exploitation of natural resources.

- **Identify the objective of PROCAMPO and target that objective.** We find that this transitional programme represents a substantial improvement over pre-reform policies, if measured by its transparency and its effectiveness at transferring income with fewer distortions to production practices, but we recommend further improvements. Four possible objectives could be achieved more effectively by a better targeted programme as PROCAMPO expires: alleviate rural poverty, transfer income to producers, reward sustainable natural resource use, or facilitate land privatisation. The appropriateness of PROCAMPO as a poverty alleviation mechanism is questionable compared to non-sectoral, more targeted programmes, so this objective would be better served by a revised programme. Further producer income support tied to land continues to neglect the needs of landless labourers, and will eventually be capitalised in land rents and prices. Recipients are currently permitted to maintain land in good environmental condition without production, whereas a programme that targets sustainable resource use would reward producers for such practices — or, better still, their outcomes — rather than passively permitting sustainable resource use. Land privatisation is necessary, and could be supported by investment assistance, but requires that payments be delinked from land. It is for Mexico to choose what objective to target, and to re-orient PROCAMPO expenditures to achieve that objective.
- **Restructure the institutional arrangements of policy-making.** The formulation of agricultural policy is perceived by at least some observers as unpredictable and non-transparent. Mexico should consider reforming institutions to delineate responsibilities clearly among Ministries and levels of government, to co-ordinate among all public actors involved in a sector or a topic, to design programmes that establish clearly the environment in which investments and business plans can be made, and to assess or review policy effectiveness. Specific steps towards better institutional arrangements of policy-making would include reducing the impact of political cycles, such as the six-year federal cycle, and initiating regular processes – of which we propose agricultural censuses and environmental data collection as priorities – instead of the *ad hoc* arrangements currently in place.
- **Measure resource use, and enforce private and public property rights.** Having adopted “polluter pays” and “user pays” principles, it remains for Mexico to implement them fully. The first challenging steps are improved measurement of resource use, and enforcement of property rights. Agricultural policies could encourage water user associations, distribute water meters to farmers exploiting private wells and further help producers learn to use resources sustainably. The consequences of other government policies on resource use should be better recognised: communal land tends to be poorly managed, policies that encourage production also encourage over-exploitation of natural resources, and support to expanding irrigation systems encourages excessive water use.
- **Privatise land.** Shared ownership of land under the remaining elements of the communal land system is intended to serve certain societal needs in the absence of broader social safety nets that exist in other OECD members. As social policies are developed to meet these needs, Mexico should move towards eliminating communal

land ownership, remove limits to private ownership of land, and help *ejidos* to privatise. Land privatisation might be facilitated by a bond-type payment that is not linked to land, and thus not capitalised immediately in the land value. Such a payment would provide capital as land markets developed, as well as providing an alternative to the social policy functions behind limits to private ownership of land.

- **Support the development of the sector as a whole.** Further development of Mexico's agricultural sector requires public investment. Public investment could improve inspection services, information about markets and information technology, and research and technological development. Continued infrastructure spending may prove useful, but should be directed to the sector as a whole and not biased heavily towards irrigation, nor towards a particular commodity or commodity group.

Fisheries policy

Mexico has made progress since 1990 in reforming the policies governing the fisheries sector. The regulatory environment in the early 1990s was not conducive to developing a sustainable fishery sector and hampered the sector's longer term economic prospects. Following multiple shifts in policy direction during the 1990s, the current policy framework is now more appropriate to helping the sector move towards a more sustainable and profitable future. The high value commercial tuna and shrimp fisheries are sustainably managed and the aquaculture sector is flourishing. There has been a marked success in reducing bycatch in the tuna and shrimp fisheries, and the negative environmental impacts of aquaculture have been significantly reduced. Transparency of stock assessments, resource status and management measures have continued to improve, together with the extent of fisheries surveillance.

However, it is clear that more reform needs to be undertaken if the fisheries sector is to remain on a sustainable path and generate long-term net economic and social benefits for Mexico. The key areas for reform identified in this report cover the vision for the sector, management of fishing effort, stock recovery, controlling the artisanal fisheries, better targeting of support programmes, and strengthening institutional arrangements to more effectively undertake management and enforcement. This report recommends the following actions towards further reform.

- **Develop a vision for the sector in order to provide institutional stability over time.** A major priority for Mexico is to develop a higher-level, long-term vision for the future of the fisheries and aquaculture sector in order to provide a sound basis for achieving a balance between industry development, resource sustainability and coastal poverty alleviation. A clearly articulated vision will ensure that the sector's regulatory framework can transcend political administrations and reduce long-term uncertainty. The need for a stable policy framework is particularly acute for the fisheries sector where management policies should be geared to enable long term, sustainable utilisation of common pool resources.
- **Tighten controls on fishing effort.** Further management reforms are required to control the effort that can be brought to bear on stocks in key fisheries. The heavy reliance on limited entry, technical measures, and closed seasons and areas is unlikely to be effective in the longer term due to input stuffing and effort creep. Market-based mechanisms, including transferable effort quotas and community-based management, should be introduced for those fisheries where feasible. Altering the economic

incentives faced by fishers, and harnessing the power of the market to efficiently allocate resources, will improve the economic viability and adjustment capabilities of the sector. The use of decommissioning schemes could be extended, although considerable care needs to be taken in the design and implementation of such schemes to ensure they meet their objectives without creating perverse incentives for fishers. It is essential that decommissioning schemes be introduced together with other measures that will effectively prevent capacity and effort re-entering a fishery.

- **Institute fisheries management plans and stock recovery programmes.** While a few fisheries have management plans in place, these have generally been *ad hoc*, fragmented and effective in only some cases. Mexico should introduce a system of legally enforceable, integrated fisheries management plans building on the current system of Normas Oficiales Mexicanas and the National Fisheries Chart, and the consultative framework that is already established and functioning for a number of fisheries. Stock recovery programmes for overexploited species should be an integral part of management plans, and should include measurable goals for stock recovery based on scientifically-derived reference points. Stronger enforcement of existing regulations for remaining fishers should be an integral part of stock recovery plans.
- **Bring the artisanal sector under stronger management.** The continued use of artisanal fisheries as a social safety net will only exacerbate existing problems of resource conflict, stock degradation and rural poverty in the coastal regions: it is both poor fisheries policy and poor social policy. This is especially evident in the shrimp fishery where conflicts over access between different fleet segments continue unabated. Fisheries and rural development policies need to be mutually supportive. While broader social policies are necessary to address rural poverty and development concerns, fisheries policies can be part of the solution. A necessary first step is to determine the size of the artisanal fleet. The use of local co-management initiatives may be effective for localised stocks and area-based fisheries (such as abalone, oysters, and lobster), particularly if cooperatives and coastal ejidos can be incorporated into the management arrangements.
- **Better target support programmes.** Subsidies to the sector have increased as part of a general push to develop the sector. While these have improved short-term profitability in some fisheries and helped to support some poorer fishing communities, many of the programmes will adversely affect the sustainability and economic profitability of the sector, and create a culture of subsidy dependence eroding flexibility and resilience. The majority of Mexico's financial transfers are directed towards direct payments and cost-reducing transfers and this should be reduced and better targeted. In particular, Mexico should examine the regional and fleet destinations for subsidies in order to ensure that they effectively meet their objectives and target populations. Cost recovery for a range of fisheries services provided to the commercial sector should be considered.
- **Continue reform of the institutional arrangements to provide for more effective management of the sector.** Mexico should examine the establishment of CONAPESCA as a functionally independent agency within SAGARPA, with an independent budget line, devolved decision making powers on fisheries issues, and a direct line of reporting to the Secretary for Agriculture. The decentralisation and regionalisation of institutional arrangements should continue. At the moment, this process is haphazard with no clear guidance as to the government's intention. A clear plan and appropriate commitment to funding is required with the aims of increasing

transparency, accountability, and stakeholder participation and empowerment. A key component in any change in institutional arrangements is the pressing need to unify fisheries enforcement functions under CONAPESCA. Enforcement efforts are currently hampered by a poor institutional structure and a lack of resources. The split in enforcement functions between government agencies and the inability of CONAPESCA to enforce its own regulations without referring them to the National Prosecutor significantly reduces the effectiveness of fisheries enforcement. Enforcement of regulations within the artisanal fisheries and many of the small scale fleets is virtually impossible with current levels of resources and without having a significant impact on the livelihoods of the poorer fishers. Plans to extend the use of vessel monitoring systems to small scale and artisanal vessels and observer coverage to parts of the shrimp fishery should be pursued.

- **Improve agency coordination for aquaculture projects.** At present, there are too many overlapping and contradictory regulations governing aquaculture developments. A “one-stop shop” would be a useful innovation to reduce red-tape and streamline the approvals process. Further work is also required to develop a coherent, transparent, risk-based set of environmental parameters for aquaculture operations in order to reduce the costs and uncertainty that currently exists in relation to environmental compliance.

Conclusion

We recognise that agricultural and fisheries policy reforms are difficult to undertake in isolation. Reforms are probably more readily launched in the context of multilateral agreements. More importantly, overall economic management, including public services such as education, safety net provisions and health, must be improved in parallel with further reforms to agricultural and fisheries policies. It may appear premature to restrain agricultural and fishery policies that serve functions relating to rural poverty alleviation or which offset high costs imposed by finance or energy policy until and unless these objectives are met by other policies. However, the reforms outlined here are critical steps towards a regime that would support agricultural and fisheries sectors that contribute to overall — including rural — economic development, respond to consumer demand, compete effectively for inputs such as labour and capital without subsidies, are modern and productive, and draw on natural resources at a sustainable rate.