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Report Highlights:

The Mexican cotton sector is facing a myriad of challenges, that coupled with reduced global demand and low global prices, will result in a reduction in planted area and production for marketing year 2020/2021. The national seed shortage continues, as the Government of Mexico continues to delay the issuance of seed permits. Additionally, rising costs of production, coupled with reductions in federal funding for pest eradication programs are resulting in producers planting other crops, like wheat and watermelon. The state of Chihuahua, the country's largest producer, is forecast to have a 25 percent reduction in planted area. Imports of cotton, which come almost entirely from the United States, are forecast to increase only two percent, as the domestic industry is expected to draw on existing stocks.

Production

The Post MY 2020/21 cotton production forecast is 1.23 million bales, a 16 percent decrease from the previous marketing year (MY), due to a significant reduction in planted area. According to data from the State Committees of Plant Health and the association of producers, planted area will be reduced in the state of Chihuahua, Mexico's largest cotton producer, by 25 percent. This reduction is a result of low prices, a lack of seeds, and water shortages due to significant drought in the summer of 2019.

Additionally, many producers lack financial liquidity, as the MY 2019/20 harvest was of low quality, and therefore brought lower returns. Contacts indicate that producers will plant other forage crops like wheat and watermelon for this MY. An additional constraint for producers is the severe reduction in the federal budget for agriculture. Particularly, producers rely on the governments financial resources in support of pest eradication programs (more information below). Contacts indicate that 30 percent of production costs are currently used for pest eradication, and if an emergency action is needed (after pest detection), the cost is even greater, resulting in devastating financial effects.

The MY 2019/20 cotton production forecast is revised to 1.6 million bales -up from a previous forecast of 1.5- due to a less dramatic forecasted reduction in harvested area in Chihuahua (159,149 ha), where farmers were able to obtain more seeds than originally expected. Seed companies reported sales that correspond to 172 thousand ha planted, however, data indicates planted area reached 230 thousand ha. Additionally, producers had expected lower yields due to unfamiliarity with the seed variety available, but, favorable weather conditions helped to produce a higher than expected harvest. Yields reached an average of 7.3 bales per hectare in Chihuahua, but in Coahuila yields reached 7.7, far higher than the national average of 7.1. This forecast also takes into account updated production data from SADER and producer associations.

Seed Shortage

Producers continue to face a cotton seed shortage, as the Government of Mexico continues to hold-up the allocation of seed permits, citing the precautionary principal, and concerns about genetically modified varieties intermixing with traditional wild cotton populations in the south of the country. While the scientific community has doubts about this assessment, to date the government continues to deny and delay issuing permits to seed companies. For MY 2020/21, 19 permits for GE varieties have been denied or are delayed, and producers report that they don't have sufficient seeds for planting.

In Mexico, the process of obtaining approval to plant cotton is granted through permits from SADER distributed directly to seed companies who apply by requesting a specific number of hectares. After obtaining permits, companies then sell seeds directly to producers within the approved area.

Slow GE cotton event approvals has resulted in a smaller variety of seeds available to companies and producers. For example, the Mexican Government has approved 4 commercial GE events compared to Brazil's 21 events available for their producers. The development of cotton seed typically requires five to six years, and the sharp increase of Mexican production over the past three years was not factored into seed production. When seed shortages occur, it is difficult for seed companies to find other sources globally, because the only events approved for planting in Mexico are outdated and unavailable on the world market. Additionally, because cotton is grown in various parts of the country, with drastically varying growing conditions, not all varieties are compatible to all areas, creating even more volatility and increasing costs of production.

Table 1. Cotton Production, Supply and Distribution for Mexico

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	Aug 2018		Aug 2019		Aug 2020	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	247	0	230	0	175
Area Harvested	243	243	225	230	0	173
Beginning Stocks	655	655	765	694	0	730
Production	1735	1735	1570	1661	0	1239

Imports	850	850	800	875	0	900
MY Imports from U.S.	0	850	0	875	0	900
Total Supply	3240	3240	3135	3230	0	2869
Exports	500	521	425	500	0	420
Use	1950	2000	1950	1975	0	1950
Loss	25	25	25	25	0	25
Total Dom. Cons.	1975	2025	1975	2000	0	1975
Ending Stocks	765	694	735	730	0	474
Total Distribution	3240	3240	3135	3230	0	2869
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

U.S. and Mexico Cooperation Toward the Elimination of Pests

The Binational Program for the Control of Cotton Pests is a joint effort managed by USDA/APHIS and SADER/SENASICA, with cooperation from various states in Mexico and the U.S., and the cotton industry. In place since 2014, the program aims to control and eradicate boll weevil and pink bollworm from cotton producing areas in Northern Mexico (and therefore prevent the spread into Texas and the U.S.). The U.S. announced it was free of pink bollworm in 2018, after nearly 100 years of its presence. All cotton producing states in Mexico participate in the program with the exception of Sinaloa and southern Tamaulipas, which account for less than one percent of total national production. Funding is shared by APHIS, states and the federal government in Mexico, and contributions from each producer. There is concerns about funding for the program from the Mexican federal government (and by proxy the state governments). Although the program has shown tremendous success, cuts in support programs for the majority of the agricultural sector is creating concern amongst producers. Rising costs of production, particularly in the eradication of pests, is resulting in some producers deciding to plant other crops for MY 2020/21.

Table 2. MY 2020/21 Cotton Production by State, Forecast

State	Planting Area* (Ha)	Forecast Yield (Bales/Ha)	Forecast Production (Bales)
Chihuahua	120,000	7.3	876,000
Baja California	25,000	7.2	180,166
Coahuila	10,000	7.75	77,547
Tamaulipas Autumn	8,200	5	41,349
Sonora	7,100	6.8	48,537
Durango	2,000	7.5	15,032
Tamaulipas Spring	1,000	0.77	771
TOTAL	173,300	7.1	1,239,404

Source: Planting area intentions obtained by communication with SADER, State Committees of Plant Health and with producers associations.

In Mexico, cotton is grown during the spring-summer cycle, which is planted from April - June and harvested August – February. Tamaulipas has a second fall-winter growing season, in the south of the country, planted from November - January and harvested June - August. All states are irrigated, except for Tamaulipas, where during the spring-summer period 78 percent of the area is rain-fed and only 22 percent is irrigated. The state of Sinaloa produces a very small amount of cotton in the northern region of Guasave, which is only planted during the winter season. There has been significant private sector investment in cotton gins within Mexico. Currently there are 77 cotton gins in country, with 37 of them in Chihuahua.

Consumption

Post forecasts MY 2020/21 cotton consumption at 1.97 million bales, a slight reduction from MY 2019/20 that is also forecast down to 2 million bales. The outbreak of the global coronavirus pandemic and its impacts on the global economy will be exacerbated in Mexico, where the economy is already

weak. Virus uncertainly, mixed with low oil prices has caused a significant depreciation of the peso to the dollar in recent weeks. Previously, the uncertainty and weakness of the Mexican economy during the last 18 months had already created consumption challenges for the domestic textile sector, as consumer purchasing power has been reduced, and foreign investment remains cautious. While the economic situation in the country is changing by the day, as a result of the above mentioned stressors, growth for 2020 is expected to be negative (current estimates from international banks range from -5.8 to -1.8 percent). Therefore, Post forecasts a slight reduction in consumption to account for the expected negative economic growth in Mexico, and reflective of the cotton sector globally.

Textile Production

Mexico is a major textile producer, with an industry based on competitive labor costs and deep integration with the United States. According to the Mexican National Institute of Statistics and Geography ([INEGI](#)), 63 percent of the Mexican textile industry is concentrated in the central and northeastern parts of the country, including Puebla, Mexico City, and the States of Mexico, Hidalgo, Tlaxcala, Jalisco, Guanajuato, Nuevo Leon, and San Luis Potosi. Mexico is the seventh largest exporter of denim worldwide, and the main supplier to the United States. According to INEGI, 40 percent of the denim fabricated in Mexico is divided between domestic consumption and Latin American consumption (including Peru, Chile and Colombia), while the remaining 60 percent is exported to the United States. One of the main competitive advantages Mexico holds over Asian producers is the speed of response to demand in fast-fashion to the United States. Depending on the location of the textile factory, Mexico can typically have a truck to the border within 48 hours.

Many Mexican textile companies have modernized with state of the art machinery that requires a very specific range of fiber, which is not produced in Mexico and is supplied from the United States. Additionally, the textile industry in Mexico continues to struggle with efficiency (in comparison to the U.S.), with 50 percent higher costs of energy.

Impacts of Covid-19 on the Textile Sector

Some Mexican fashion and textile manufacturers have reported a slight increase in orders and quotes from U.S. companies due to the increasing closure of factories in China -the main sourcing country for international fashion companies- due to Covid-19. Companies have reported that trade has remained

constant, and that a few North American companies have called to inquire about production capacity in Mexico. However, as the virus impacts on the workforce and economy in both countries continues to change at a rapid pace, it is unclear if this demand will remain in the medium to long term.

In the event that demand takes a significant boost, denim may be the only sector that will be able to respond easily. The sector is very well structured in Mexico, with a high level of automation and significant growth in recent years. The denim sector is concentrated in the States of Mexico, Guanajuato, Puebla, Jalisco and Yucatan. In contrast, for the rest of the industry, the slowdown in production in China has caused a disruption in the production chain of various inputs needed in the fast-fashion sector. Several fashion companies have announced that they will not sell what they anticipated at the beginning of the year, because there will be not enough production.

Trade

The Post forecast for MY 2020/21 cotton exports is 0.42 million bales, 16 percent lower than MY 2019/20. This decrease is due to lower expected production, low global prices, and a weakened global economy. It is also expected that low oil prices will increase the demand for synthetic fibers. Exports will mainly go to China, Pakistan and Vietnam. According to traders, Baja California and la Laguna region will export to Asia; meanwhile Chihuahua and Tamaulipas cotton will cover mainly domestic demand.

The Post MY 2020/21 cotton import forecast is 0.9 million bales, two percent higher than the previous MY. While domestic production is forecasted to decrease, Post believes imports will only increase by two percent, as stocks of domestically produced cotton will be used first.

The Mexican textile industry prefers to use U.S. cotton over domestic supplies for a number of reasons. 1) In order to comply with origin content rules if the product is for re-export. 2) The United States produces cotton with a unique standard degree needed to feed high speed and energy efficient machines industry uses in Mexico. Mexican fiber does not always have the standard thickness necessary. 3) With U.S. cotton, yearly or twice a year contracts are made with textile companies to provide monthly deliveries, which saves the buyer warehouse, insurance and financial expenses. Mexican producers must sell their complete harvest because there is insufficient storage facilities in-country.

The textile and apparel industry in Mexico is based on competitive labor costs and geographic proximity to the United States. The pattern has been for U.S. companies to supply textiles and fibers to factories in Mexico (known as maquilas or maquiladoras) that receive favorable fiscal and trade treatment. The maquiladoras then re-export these inputs after processing in the form of finished garments.

There has been a reduction of imports of yarn and fabric over the past five years, due to increased domestic cotton production and consumption, as well as greater efficiency and quality of Mexican textiles.

Stocks

The Post MY 2020/21 ending stocks forecast is 0.47 million bales, a decrease of 44 percent from previous MY due to lower production, and expectations that industry will draw down on stocks instead of increasing imports. MY 2019/20 ending stocks are forecasted at 0.73 million bales, 16 percent higher than previous estimates, to account for larger than expected production. There are no government-held stocks in Mexico.

Prices

The New York Stock Exchange (NYSE) average price for cotton on March 19, 2020 was USD \$0.49 per pound according to Mexico's Agency of Marketing Services and Development of Agricultural Markets ([ASERCA](#)), the agency in charge of publishing cotton prices. Cotton prices were up slightly in October and November due to the lower expected global production, but there is a downward price trend since December, due to depressed demand and slower business activity globally (WASDE).

Policy

Cotton is the only commercially grown GE crop in Mexico. Several officials named for key policy posts are vocal opponents of biotechnology, and contradictory language has been used by other government officials. As previously mentioned, the slow approvals process for GE events has been one of the factors causing a shortage of GE cotton seeds since MY2019/20. Because the permits correspond to particular areas, some states will not have access to all the events that, as was mentioned before, are outdated and unavailable on the world market. Producers and the textile industry are working to lobby

officials in the Secretariats of Agriculture and Environment, as well as members of the congress, to express their concern about the release of GE permits and the current seed shortage.

Attachments:

No Attachments