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Report Highlights:

Mexico's textile industry has rapidly recovered from dramatic effects due to COVID-19 and the global slowdown for cotton products during the first half of 2020. The recovery of global demand for garments, innovation in product offerings, and certainty and logistical transport advantage of textile trade through the USMCA agreement is accelerating cotton consumption. Additionally, high global freight costs have disincentivized the importation of garments from Asia and further boosted domestic textile production. As a result, cotton imports from the United States in MY 2021/22 are expected at levels not seen since MY 2010/11, as domestic production is not sufficient and textile mills prefer high quality U.S. cotton.

Production

Cotton is produced in northern Mexico, in the states of Chihuahua, Baja California, Coahuila, Tamaulipas, Sonora, and Durango. While production reached a record in marketing year (MY) 2018/2019, several significant challenges in the sector have significantly reduced production (approximately a 33 percent reduction) and quality. Since 2019, the Government of Mexico has not approved any new genetically engineered (GE) cotton seed traits, resulting in the need for producers to plant old varieties with variable levels of quality and yields. As a result, planted area has been reduced significantly, as producers have chosen to plant other crops with more reliable input availability.

Cotton Planted Area for MY 2021/2022



Source: Secretariat of Agriculture and Rural Development (SADER), State Committees of Plant Health, and Producer Associations

Post forecasts MY 2021/22 cotton production at 1.17 million bales, a six percent reduction from previous estimate due to lower-than-expected increases in planted area in Chihuahua, but still ten percent higher than the previous marketing year. Post forecasts planted area for MY 2021/22 to reach 159,000 hectares, 13 percent lower than the previous estimate.

Although not as high as originally forecasted, planted area did increase from MY 2020/21 levels, attributable to *la Niña* conditions (extreme drought and high temperatures) in the beginning months of 2020, that encouraged planting of drought resistant cotton over other more water reliant crops. Additionally, an unusual winter storm in mid-February destroyed a significant portion of the corn and sorghum crops in Tamaulipas, which led producers to diversify plantings to include cotton.

Table 1. Cotton Production, Supply and Distribution

Cotton	2019/2020		2020/2021		2021/2022	
Market Year Begins	Aug 2019		Aug 2020		Aug 2021	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	230	0	148	0	159
Area Harvested	225	230	145	142	150	154
Beginning Stocks	694	694	694	765	414	325
Production	1570	1661	1020	1060	1050	1173
Imports	590	570	875	1000	900	1100
MY Imports from U.S.	0	570	0	1000	0	1100
Total Supply	2854	2925	2589	2825	2364	2598
Exports	660	660	500	500	300	400
Use	1475	1475	1650	1975	1650	2000
Loss	25	25	25	25	25	25
Total Dom. Cons.	1500	1500	1675	2000	1675	2025
Ending Stocks	694	765	414	325	389	173
Total Distribution	2854	2925	2589	2825	2364	2598
Stock to Use %	32.51	35.83	19.26	13.13	19.95	7.21
Yield	1519	1572	1532	1625	1524	1658
(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)						

Seed Shortage

Producers have faced a cotton seed shortage since 2019, as the Government of Mexico continues to reject or delay approval for GE cottonseed permits, citing the precautionary principle, and concerns about GE varieties intermixing with traditional wild cotton populations in the south of the country. The only events approved for planting in Mexico are outdated and unavailable on the world market, and producers report that they don't have sufficient seeds for planting. Cotton is grown in various parts of the country, with drastically varying growing conditions. Available varieties are often not compatible to all areas, creating even more volatility, quality uncertainty, and increasing costs of production.

In Mexico, the process of obtaining approval to plant cotton is granted through permits from the Secretariat of Agriculture and Rural Development (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.

GE cotton is the only biotech crop currently allowed for cultivation in Mexico. U.S. cottonseed exports to Mexico reached U.S. \$13 million in 2020, down from a high of U.S. \$17 million in 2018. Through June 2021, trade is down 86 percent compared to the same period in 2020, only reaching U.S. \$2 million. Historically, all cottonseed is imported from the United States, however contacts suggest that only 40 percent of the cotton seeds planted this growing period were bought from official U.S. companies. This percentage is likely to decrease further in the following years, as old varieties will be discontinued for production.

Yields

Although nearly all cotton growers have adopted GE seed varieties and high-density planting, other factors such as weather, pests, and technology use can explain differences in production and yield levels.

Water and Irrigation

Nationally, water availability for MY 2021/22 is sufficient. However, changing climate patterns and potential volatility in U.S. water availability could greatly affect planted area in MY 2022/23. Producers report that irrigation system usage is volatile due to electricity shortages by the Federal Electricity Company. Due to continuous suspensions of the electricity supply needed to operate and maintain wells, producers have relied heavily on seasonal rains to provide between 35 and 50 percent of water needs nationally.

Rains during June and July in Chihuahua, which produces nearly 80 percent of the nation's cotton, were consistent and plentiful for the crop. Production is expected to have good yields. Chihuahua relies on water from aquifers in Mexico.

In Baja California and Sonora, water availability has been consistent and sufficient to for the crop. As this region has high temperatures and fewer water sources, they rely on supplies from the United States, per the 1944 Water Treaty between the U.S. and Mexico for the utilization of waters of the Colorado and Tijuana Rivers and of the Rio Grande. On August 16, the U.S. government declared the first-ever water shortage on the Colorado River, and indicated that Mexico would receive five percent less water in 2022. While not a large reduction, producers are likely to endeavor to develop more efficient water management practices. However, high temperatures in Baja and Sonora during the flowering period are likely to reduce yields, but high-quality production is expected.

Most of the planted area in Tamaulipas is irrigated with water from Mexico (seven percent is rain-fed only). To date, rains have been excessive and significantly reduced yields and quality are expected. The area also has less advanced technologies for harvesting and planting, and abnormal February frosts has exacerbated these challenges.

The *La Laguna* region (Coahuila and Durango) has had beneficial climatic conditions throughout the growing season, with sufficient rains and irrigation supplies. Typically, Coahuila and Durango need less irrigation cycles due to more moderate temperatures than the rest of the cotton growing areas and have higher yields.



Cotton field in Chihuahua, August 2021

United States 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 United States, 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 the United States). The United States 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. Control actions consist of integrated pest management, which includes GE seeds, the sterile insect technique, and pheromone mating disruption. *Bacillus thuringiensis* (*Bt*) cotton directed against the pink bollworm covers about 96 percent of the planted area for cotton. This program has brought improvements in pesticide use, with producers in both the United States and Mexico using 50 percent less usage of insecticides. Mexico has also improved its early pest detection and emergency response processes. The Ministry of Agriculture and Rural Development (SADER) [announced](#) on July 20, 2020 that the entire territory of Baja California, Chihuahua, Coahuila, Durango, and Sonora have been recognized as pink bollworm free zones. Additionally, Baja California, Chihuahua, and some municipalities of Coahuila and Sonora have been declared cotton boll weevil free zones. Funding is shared by APHIS, states and the federal government in Mexico, and contributions from each producer. Although the program has shown tremendous success, the federal government has cut support for the program as part of its austerity measures.

Post-Harvest Challenges

While Chihuahua has storage capacity for 225,000 bales of cotton, there is generally no additional capacity throughout the rest of the country. Bales are stored outdoors and vulnerable to loss. In La Laguna producers struggle with fiber commercialization due to their small size and production volumes, and lack of storage requires them to sell quickly.

Table 2. State Level Forecast MY 2021/2022

State	Area Planted (Ha)	Yield (Bales/Ha)	Bales	Planting dates
Chihuahua	121,864	7.7	938,353	04/20 - 05/31
Baja California	13,522	6.17	83,431	03/15 - 04/15
Coahuila	9,136	8.23	75,189	02/15 - 03/15
Tamaulipas	10,224	4.6	47,030	03/15 - 04/15
Sonora	2,635	6.6	17,391	03/15 - 05/31
Durango	1,539	7.8	12,004	03/15 - 04/15
Total	158,920	7.4	1,173,398	

Source: Secretariat of Agriculture and Rural Development (SADER), State Committees of Plant Health, and Producer Associations

Consumption

Mexico's textile industry has rapidly recovered from initial COVID-19 effects and the global slowdown for cotton products during the first half of 2020. Beginning in July 2020, the Mexican textile sector began diversifying their product offerings, adapting to new demand for household products like sheets and towels. Additionally, production of personal protective equipment allowed many textile mills to remain operational and profitable. Many mills have continued to produce these products in addition to returning to their normal offerings.

The recovery of global demand for garments, innovation in product offerings, and certainty and logistical transport advantage of textile trade through the USMCA agreement is accelerating cotton consumption. Additionally, high global freight costs have disincentivized the importation of garments from Asia and further boosted domestic textile production. Post forecasts MY 2021/22 cotton consumption at 2.02 million bales, up six percent from previous estimation due to a quicker than expected recovery in the textile industry. Although Mexico is experiencing another wave of COVID-19 infections, the government has stated that no additional lockdowns or restrictions will be put in place, and workers in the private and public sector and students are returning to in-person activities. As both the Mexican and U.S. economies recover and reopen, demand for apparel is strong, and expected to increase for the foreseeable future.

Mexico is a significant supplier of jeans and t-shirts to the United States (made in Mexico with U.S. cotton), and according to the Office of Textile and Apparel (OTEXA), cotton t-shirts exported to the United States increased 53 percent in the first five months of 2021, compared to the same period in 2020. In fact, demand is so high, there is a shortage of raw materials for the creation of cotton yarns, fabrics and blends, and garment accessories. Contacts indicate they have reached pre COVID-19

production levels and would like to further increase production, but they are unable to procure machinery and raw materials in a timely fashion.

High International Freight Costs

With increasing international freight costs and container scarcity, Mexico's logistical advantage is the proximity. The U.S. industry is buying more textiles (technical textiles, yarns, nonwoven, carpets, fabrics, etc.) and apparel (trousers, surgical drapes, T-shirt, curtains and bed valances, track suits, surgical clothing, and others) from Mexico, due to logistical advantages and low costs of delivery. Some U.S. and global brands are investing in textile plants and financing existing ones in Mexico to manufacture and export textiles and apparels to the United States.

Over the past 10 years illegal (without proper taxation) importation of textiles, mainly from Asia, have been undermining the domestic textile industry. The national chamber of the textile industry (CANAINTEX) reported in 2020 that illegal importation of product resulted in a 30 percent reduction in domestic market demand for textiles and a 37 percent reduction for apparel products. Increasingly high transport costs have significantly decreased the importation of these low-cost textiles and apparel, further supporting domestic textile demand and cotton consumption.

Ban on Xinjiang's Textile Products

The U.S. ban on cotton and cotton products from Xinjiang, China has created additional opportunities for Mexico to increase textile offerings to both the United States and Canada under the U.S.-Mexico-Canada Agreement (USMCA) rules of origin provisions. Because of USMCA certainty, a significant portion of Mexico's exported apparel consists of North American-made yarn and textiles. Due to transport and duty savings, nearshore options are cheaper than production in China or other Asian countries.

Mexico's textile industry prefers to use U.S. cotton over domestically produced supplies for several reasons. 1) If the product is for re-export for compliance with origin content. 2) High quality U.S. cotton is needed for the state-of-the-art machinery found in many of Mexico's textile mills, domestic cotton does not have quality consistency. 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 often sell their complete harvest because of a lack of storage facilities 4) U.S. cotton programs assure sustainable production and traceability throughout the value chain.

Trade

Post forecasts MY 2021/22 cotton exports to remain at 0.4 million bales. Export levels will depend heavily on cotton quality, as lower quality cotton is not acceptable for domestic textile industry use. MY2020/21 exports are revised up 28 percent to 0.5 million bales, on unexpected high levels of poor-quality cotton exports to Turkey, Pakistan, and China.

The Post forecast for MY 2021/22 cotton imports is increased ten percent from previous estimate at 1.1 million bales due to quicker than anticipated recovery of the textile industry. Cotton imports from the United States, which typically account for 50 percent of consumption demand, are expected to increase on increased global textile and apparel demand. The Post forecast for MY 2020/21 imports is up 20

percent to one million bales, an increase of 20 percent from the previous estimation, due to the fast recovery of the textile industry.

Stocks

The Post MY 2021/22 ending stocks forecast is 0.17 million bales, four percent lower than the previous estimate, due to the quick recovery of the textile industry and U.S. demand. MY 2020/21 ending stocks are revised 43 percent higher to 0.32 million bales, due to a higher than previously estimated production. There are no government-held stocks bales in Mexico. Aside from minimal storage in Chihuahua, no storage capacity for cotton exists in the rest of the country; bales are stored outdoors and vulnerable to loss.

Prices

The New York Stock Exchange (NYSE) average price for cotton on August 17, 2021, was 0.97 U.S. dollars per pound (as reported by Mexico's Agency of Marketing Services and Development of Agricultural Markets (ASERCA)). December future contracts were between 88 and 90 cents / lb for most of July. Sustained high prices will incentivize cotton planting for MY 2022/23, as producers comment that a price higher than 80 cents / lb is ideal.

Upcoming Textile Events in Mexico

[Intermoda](#) January 18 to 21, 2022. Guadalajara, Mexico

[Exintex](#), October 26 to 29, 2021. Puebla, Mexico

Attachments:

No Attachments