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Report Highlights:

The previously forecast reduction in Mexican cotton production was not as severe as anticipated, due to a lower than expected reduction of planting in the state of Chihuahua. Following the shortage of available cotton seed for marketing year MY 2019/20 planting, new permits for genetically engineered planting for MY 2020/21 period are being denied by the National Service for Agri-Food Health, Safety and Quality (SENASICA) for the purposes of protecting wild cotton populations found in the southeast of the country. The reduction in seed availability will continue to result in a decline of planted area and production. This decrease is likely to be offset by an increase in imports, which are fulfilled completely by the United States.

Production

Post MY 2019/20 cotton production is forecast at 1.57 million bales, a five percent increase from the previous Post forecast, due to a lower than expected reduction in planting in Chihuahua. According to data from the Secretariat of Agriculture and Rural Development (SADER), State Committees of Plant Health and the associations of producers, planted area will be slightly lower compared to MY 2018/19, mainly on reductions in Chihuahua as a result of low seed availability, and due to poor quality of the MY 2018/19 crop which affected grower income and liquidity to finance MY 2019/20 planting (as mentioned in report Mexico: Cotton and Products Update / September 4, 2019).

Seed Shortage

Cotton seed shortages for MY 2019/20 will remain in MY 2020/21, as Post has learned that as of now, nine of 19 permits have being denied by SENASICA due to a negative determination by the Secretariat of Environment and Natural Resources (SEMARNAT), with more denials anticipated. The reason stated for denials is that SEMARNAT claims Mexico is the center of origin for cotton, with some wild populations found typically in the southeast of the country. The denials are in order to protect these wild populations, and to prohibit the possible mixing of cultivated (including genetically engineered (GE) and non-GE) and wild populations. Of note, most commercially grown cotton is produced in the north of the country. Producers and the textile industry are worried that they will not have authorized permits in time for 2020 planting, which will occur in December 2019, February - April, March - May and June - July 2020. If all new permits are denied, producers will have access to seeds for only four GE events with previous commercial permits, three stacks and one contained in within the stacks. The characteristics of the events commercially available are 1) resistance to lepidopteran and tolerance to glyphosate herbicide, 2) resistance to lepidoptera and tolerance to dicamba, gluphosinate ammonium and glyphosate herbicides, 3) tolerance to dicamba, gluphosinate ammonium and glyphosate herbicides and, 4) tolerance to glyphosate herbicide. Producers prefer events 1 and 2 because both offer needed characteristics, control plagues with less use of pesticides, and tolerance to herbicides that greatly reduces labor needed on the fields. Because permits correspond to particular areas, some states will not have access to these four events. Post has learned that producers and the textile industry are actively engaging with officials in SADER and SEMARNAT, and members of Congress to express their concern about the release of GE permits and the resulting seed shortage.

In February 2019, the Mexican government granted permits for the commercial cultivation of GE cotton. Only two companies received permits, although one received only a small percentage of its requested area. This created a shortage of GE cotton seed for producers. In Mexico, the process of obtaining approval for planted area is granted through permits issued by SENASICA directly to seed companies, based on applications requesting a specific amount of hectares. After obtaining permits, companies then sell seeds directly to producers within the approved area (See Mexico: Biotechnology Annual 2019 for more information about the biotechnology approvals process).

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. The slow GE cotton event approval has resulted in a smaller variety of seeds available to companies and producers. For example, the Mexican

Government has approved four GE events compared to Brazil's 17 events. 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. Post forecasts a conservative yield forecast for MY 2019/20 at 6.99 bales/ha, based on new seed variations this planting cycle, and concern that producers are not familiar with proper management techniques needed to optimize yields. There is concern among producers that gains in production expansion and improved quality (due to public and private investments) over the past two years will be lost if the seed shortage continues. Additionally, producers and the textile industry have been working to create greater integration with the use of Mexican cotton, and reductions in domestic production will affect these efforts.

The planting forecast also reflects lower use of the Forward Contract Program, due to low future prices for cotton in comparison to previous years. The Forward Contract Program, *Agricultura por Contrato* is designed for producers, traders, and consumers of a number of commodities, to provide a price risk management incentive through an early coverage scheme. The Advance Coverages are intended to allow participants to cover themselves when market conditions are better for their operation and protect their income. For cotton, it has been extensively used by producers and traders who see it as insurance for the price of sale. However, this year the program was delayed by the government and current low prices have disincentivized use of the program, and contacts mentioned that credit agencies are concerned that cotton producers will be unable to pay their credits.

Table 1. Cotton Production, Supply and Distribution for Mexico

Cotton	2017/2018		2018/2019		2019/2020	
Market Begin Year	Aug 2017		Aug 2018		Aug 2019	
Mexico	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	211	0	247	0	225
Area Harvested	210	210	243	243	225	225
Beginning Stocks	445	445	655	585	765	634
Production	1560	1560	1735	1735	1580	1572
Imports	925	930	850	860	850	875
MY Imports from U.S.	0	930	0	860	0	875
Total Supply	2930	2935	3240	3180	3195	3079
Exports	350	350	500	521	450	550
Use	1900	1975	1950	2000	2000	2000

Loss	25	25	25	25	25	25
Total Dom. Cons.	1925	2000	1975	2025	2025	2025
Ending Stocks	655	585	765	634	720	506
Total Distribution	2930	2935	3240	3180	3195	3079
Stock to Use %	29.11	25.16	31.22	25.15	29.39	19.76
Yield	1617	1617	1555	1555	1529	1526

(1000 HA) ,1000 480 lb. Bales ,(PERCENT) ,(KG/HA)

Table 2. MY2019/20 Cotton Production by State, Forecast

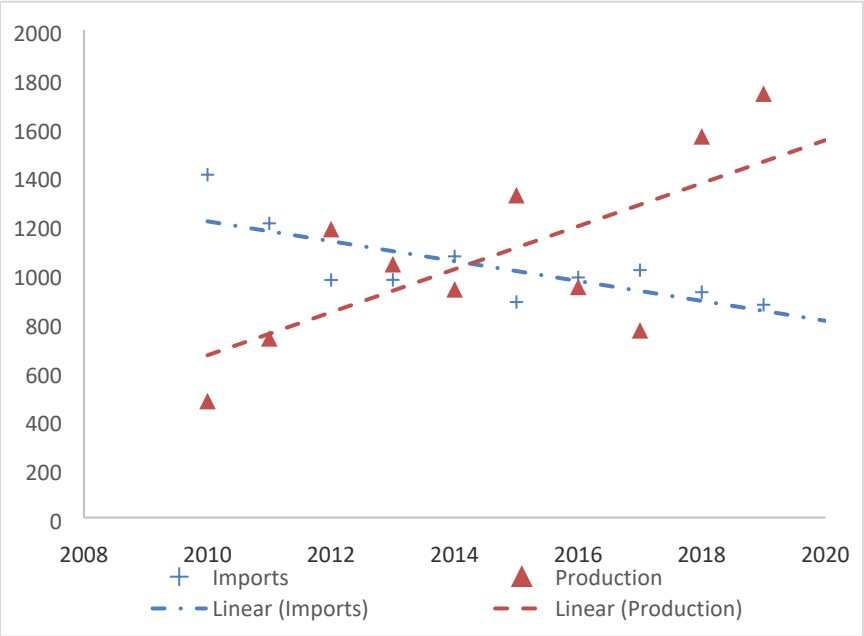
State	Planting Area* (Ha)	Forecast Yield (Bales/Ha)	Forecast Production (Bales)
Chihuahua	159,700	7.2	1,149,840
Baja California	31,790	6.3	200,277
Coahuila	14,910	7.8	116,298
Tamaulipas Autumn	7,953	5	40,098
Sonora	7,735	5.8	44,708
Durango	2,601	7.6	19,741
Tamaulipas Spring	770	1.9	1,509
Sinaloa	88	8.2	723
TOTAL	**225,559**	**6.9**	**1,572,972**

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

MY 2018/19 final cotton production is 1.7 million bales, due to a higher than previously estimated harvest area in Chihuahua, where climatic conditions were ideal for production, and yields reached an average of 7.2 bales per hectare. Yields in Baja California and Sonora were affected by regional climatic problems like Monson effects, and the outbreak of a new pest in the region; the mealybug (*Phenacoccus solenopsis*), for which control efforts are being carried out by National Health Service, Food Safety and Quality Service (SENASICA), and local State Committees of Plant Health.

Cotton production in Mexico has increased over the last ten years due to the use of GE seeds, good pest management programs, and equipment investment that has allowed for precision techniques in harvesting. The chart below illustrates this increase, and the resulting reduction of imports.

Figure 1. Mexican Cotton Production and Imports From 2010 – 2020



Source: Imports data from Mexican National Institute of Statistics and Geography (INEGI) through GTA, Production data from Production, Supply and Distribution (PS&D, USDA). 1000 480 lb. Bales

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, 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.

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.

Figure 2. Cotton Gins in Mexico

Regions	Cotton Gins
Chihuahua	37
La Laguna (Durango & Coahuhila)	16
Baja California & Sonora	16
Tamaulipas	6
Sinaloa	2

Source: Communication with seed companies

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.

Consumption

Post forecasts MY 2019/20 domestic cotton consumption at 2.02 million bales, the same level as MY 2018/19. The flat consumption forecast is based on concerns that the uncertainty and weakness of the Mexican economy is creating consumption challenges for the domestic textile sector, as consumer purchasing power has been reduced, and foreign investment remains cautious. October GDP data from The National Statistics Office of Mexico showed the economy had contracted 0.4 percent from the same period in 2018. Contacts indicate that the textile industry is working to diversify and expand product offerings in order to compensate for low consumer consumption demand. For example, Post has learned of potential contracts with the Mexican government to produce and provide primary school uniforms throughout the country (uniforms are provided to students free of cost). However, Post forecasts that a reduction in consumption is unlikely due to the importance of the textile industry to the Mexican manufactory economy (including employment generation), and strong integration with the US market.

According to the National Chamber of the Clothing Industry (CANAIVE) figures, the clothing sector accounted for two percent of the Mexican Gross Domestic Production 2018, and generated 330,000 formal jobs in 9,000 factories. In 2018, the clothing industry exported goods worth USD 5.5 billion, and January to May 2019 exports reached 2.1 billion.

Trade

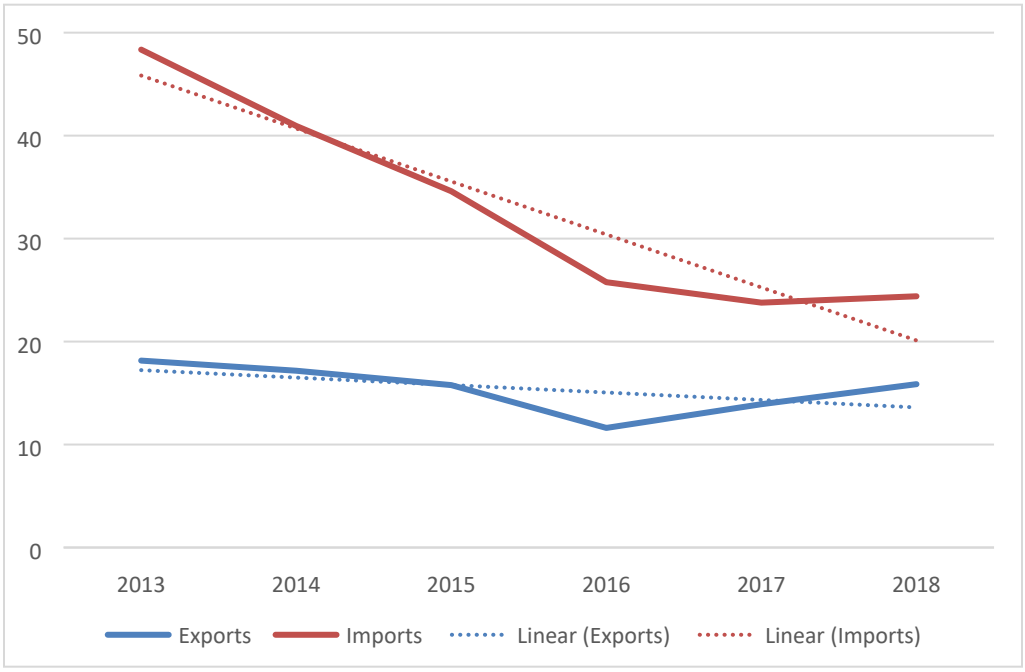
Post forecasts MY 2019/20 cotton exports at 0.55 million bales, five percent higher than MY 2018/19, and no change from previous forecasts. Traders indicate that the exports are expected to go to China (please see section below on increased exports to China), Pakistan and Vietnam. According to traders, 95 percent of Baja California production will be exported to Japan and Pakistan. La Laguna region will export to Indonesia, China and Turkey; meanwhile Chihuahua and Tamaulipas cotton will cover mainly domestic consumption.

Post MY 2019/20 cotton imports remain forecasted at 0.87 million bales, 1.7 percent higher than the previous MY, due to the reduction in production, and reflective of the importance and stability of the U.S. market, including the integration of the value chain and rules of origin commitments in NAFTA.

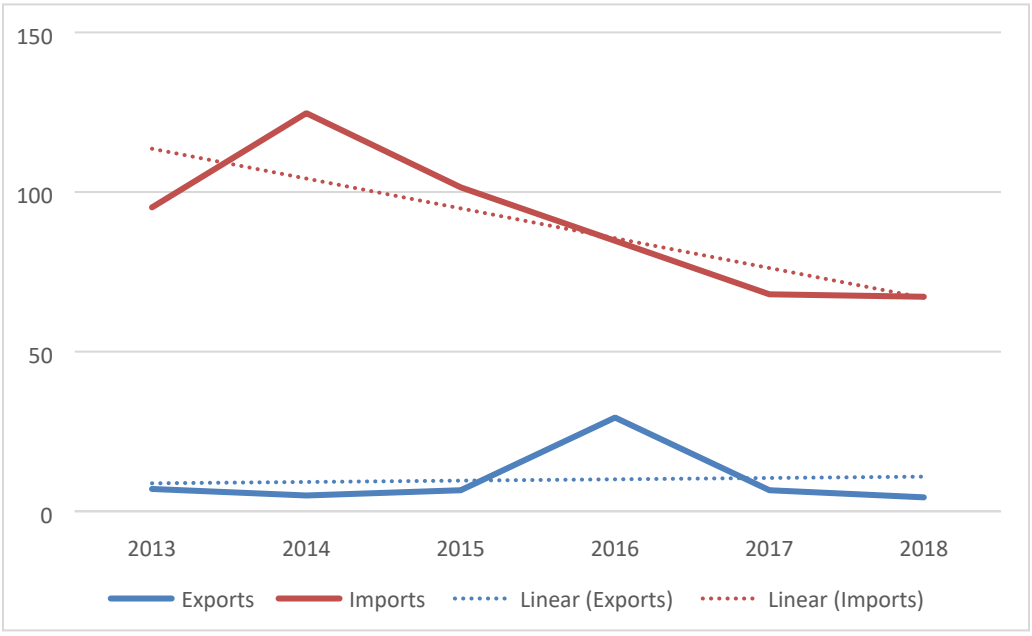
The Mexican textile industry prefers to use U.S. cotton over domestic supplies for a number of reasons. 1) In order to comply with origin content rules if the product is for re-export. 2) The United States produces cotton with a unique standard degree needed to feed high speed and energy efficient machines 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.

Figure 3. Mexican Cotton Trade of Yarn and Fabrics



Source: GTA, cotton yarn (other than sewing thread), containing 85% (by wt.) or more cotton, not put up for retail sale, thousand tons



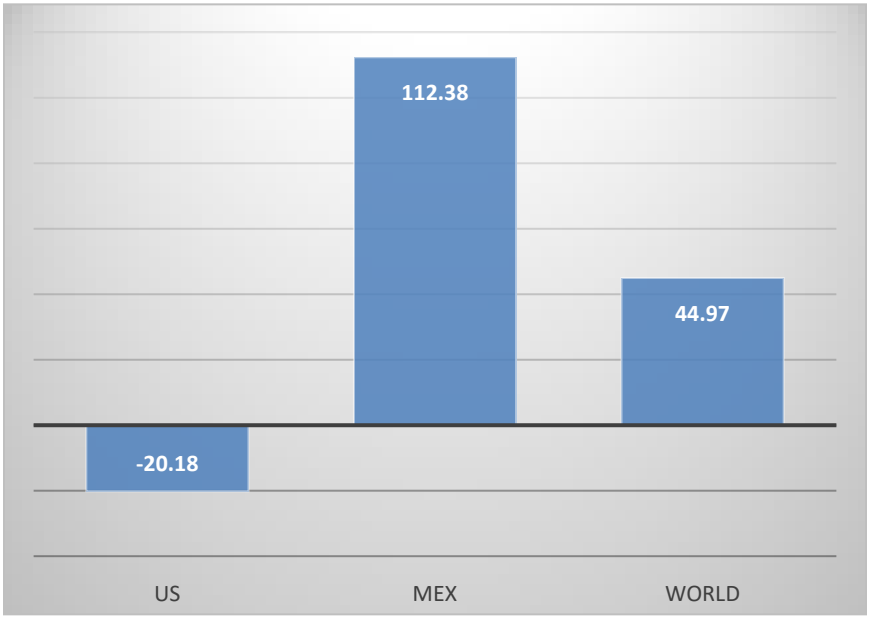
Source: GTA, woven fabrics of cotton, containing 85% or more cotton by weight, weighing not more than 200 g/m^2, million m^2

The charts above, illustrates the 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.

Mexico Sees Advantage in U.S. – China Trade Tensions

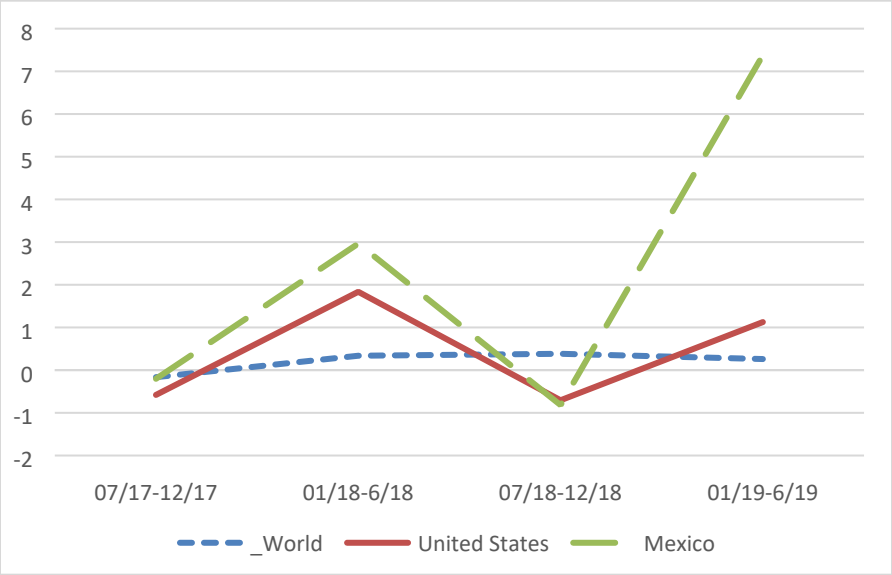
The U.S. - China trade dispute remains a central source of uncertainty for the global cotton market. While trade tensions between the United States and China continue, Mexico has taken advantage with a significant increase of cotton exports to China, with strong growth continuing (and as illustrated in the chart below) through September 2019. Cotton is one of China's most important agricultural imports from the United States, but the imposition of a 25 percent tariff (with a final tariff as high as 65 percent for out-of-quota imports already with 40 percent tariff) has brought benefits to other countries. China has replaced U.S. cotton by sourcing mainly from Brazil, Australia and India, however, Mexican exports to China since tariffs began (April 2018 – September 2019) have increased by 112 percent, compared with the previous 18 months. This increase is valued at USD $85.45 million. This growth rate shows the advantage that Mexico has achieved, growing faster than the world and U.S. exports during two semesters (Fig. 5). While Mexico hopes to expand raw cotton exports as the U.S. - China tensions continue through 2019, they could also look to take advantage in the textile sector. However, long term results will depend on additional investment and improved export capacities in Mexico, including improving investor confidence and ease of business with international customers.

Figure 4. Percentage of Growth in Cotton Exports to China from April 2018 to September 2019



Source: Trade Data Monitor

Figure 5. Semester Growth Rate in Cotton Exports to China



Source: Trade Data Monitor

Stocks

The Post MY 2019/20 ending stocks forecast is 0.50 million bales, an increase of 50 percent from previous estimates due to higher production and no growth in consumption. MY 2018/19 ending stocks is 0.63 million bales, 16 percent higher than previous estimates to account for increased imports and lower exports. There are no government-held stocks in Mexico.

Prices

The New York Stock Exchange (NYSE) average price for cotton on November 18, 2019 was USD $0.61 per pound according to Mexico's Agency of Marketing Services and Development of Agricultural Markets (ASERCA), which is in charge of publishing cotton prices. Cotton prices were up slightly in October and November due to lower than expected global production (as published in the World Agricultural Supply and Demand Estimates).

Policy

Cotton is the only commercially grown GE crop in Mexico. Several officials named for key policy posts are vocal opponents of biotechnology. Contradictory language has been used by other government officials. As mentioned, slow approvals process for GE events has been one of the factors causing a shortage of GE cotton seeds for the MY2019/20.

Attachments:

No Attachments