

Required Report: Required - Public Distribution

Date: November 30,2020

Report Number: MX2020-0070

Report Name: Cotton and Products Update

Country: Mexico

Post: Mexico City

Report Category: Cotton and Products

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Report Highlights:

Mexico cotton production for marketing year (MY) 2020/21 is forecast 36 percent lower than the previous MY, based on limited access to inputs for production and reduced government support. Additionally, low global textile and apparel demand due to economic effects of the COVID-19 pandemic and corresponding low prices, resulted in some producers planting other crops. Drought conditions in northern Mexico have been reported since the end of May, and has delayed harvest through December. While no effects to final production are expected, there are concerns about fiber quality. The textile industry is slowly recovering after the partial reopening -with a multitude of sanitary measures- of spinning mills and textile factories in July, and cotton imports from the United States are expected to increase gradually over the coming months, although full recovery is not expected until at least early 2022.

Production

The Post cotton production forecast for MY 2020/21 is 1.05 million bales, a 36 percent decrease from the previous MY, and slightly higher than previous forecasts. This forecast is based on updated information from the State Committees of Plant Health and producer associations. Drought conditions in northern Mexico have been reported since the end of May, and have affected production of livestock and crops like beans, chiles, corn, sorghum, oats, and potatoes. Cotton producers report only a delay to harvest, with minimal to no effects on final production. However, fiber quality remains a concern. While weather has not affected production to date, reduced access to inputs, a lack of sectoral government support, and low global cotton demand due to the COVID-19 pandemic, has reduced nation-wide production gains observed in previous years.

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	147
Area Harvested	243	243	225	230	160	147
Beginning Stocks	655	655	694	694	669	765
Production	1735	1735	1570	1661	1050	1054
Imports	850	850	590	570	600	800
MY Imports from U.S.	0	850	0	570	0	800
Total Supply	3240	3240	2854	2925	2319	2619
Exports	521	521	660	660	200	200
Use	2000	2000	1500	1475	1600	1600
Loss	25	25	25	25	25	25
Total Dom. Cons.	2025	2025	1525	1500	1625	1625
Ending Stocks	694	694	669	765	494	794
Total Distribution	3240	3240	2854	2925	2319	2619

(1000 Ha), 1000 480 lb. bales

According to data published by the Information System of Agricultural Production (SIAP), area planted for MY 2020/21 reached 168,502 ha, with a final harvested area of 152,722 ha (after a published revision). Data obtained by State Committees of Plant Health and producer associations show final planted area at 147,739 ha. Post believes planted area discrepancies with official SIAP data could be a result of COVID-19 reductions in travel and insufficient surveying capabilities. Planted area in Chihuahua, the country's largest producer, reached 104,500 ha, a 34 percent reduction from the previous MY. This reduction is mainly due to a lack of genetically engineered (GE) seeds, low glyphosate

stocks, and rising costs of production for pest eradication and weed management. Additionally, reduced global demand for textiles and clothing and corresponding low prices led many producers to plant other crops like sorghum, wheat, and watermelon. Producers are reporting that water availability for irrigation systems is presenting additional challenges, due to electricity shortages by the Federal Electricity Company (CFE). Cotton planted areas in Chihuahua are typically irrigation fed, but due to continuous suspensions of the electricity supply needed to operate and maintain wells, producers relied heavily on seasonal rains to provide between 35 and 50 percent of water needs.

Table 2. MY 2020/21 Forecast by State

State	Area Planted (Ha)	Yield (Bales/Ha)	Bales
Baja California	19,905	7.2	143,449
Coahuila	8,529	7.8	66,140
Chihuahua	104,500	7.3	762,850
Durango	928	7.5	6,975
Sonora	5,040	6.8	34,455
Tamaulipas Spring	720	5.0	3,631
Tamaulipas Winter	8,117	4.6	37,338
Total	147,739	7.2	1,054,838

Source: SADER, State Committees of Plant Health, and producer associations

Consumption

Post forecasts MY 2020/21 cotton consumption at 1.62 million bales, six percent higher than the previous forecast on a sooner than expected recovery in the textile sector, and the ability of some factories to modify operations to produce personal protection equipment.

COVID-19 Impacts on the Textile Sector

On March 23, Mexico declared a COVID-19 health emergency and suspended all non-essential activities in the public, private and social sectors. The textile industry was classified as non-essential, with an exception for operations producing personal protective equipment and other material for the health sector, which accounted for approximately 10 percent of total national factory capacity. After the textile sector was deemed non-essential, a number of companies expanded their production offerings to include masks, gowns and sheets, in order to remain operational. In addition, some textile industries saw opportunities to export medical supplies due to the high demand for such equipment. These adaptations helped the sector avoid the worst of forecast scenarios.

The textile industry employs 1.2 million people (of which 70 percent are women), 10 percent of employment in the formal manufacturing sector. In 2019, Mexico exported more than 7.3 billion dollars. From January to July 2020, Mexican exports had reduced by 23 percent compared to the same period in 2019.

Slow Recovery

The textile industry began operating at 30 percent capacity in July and August, with full product offerings. While most factories are currently operational, parameters such as employee capacity and operating hours depend on state government regulations that vary from week to week upon the evaluation of COVID-19 contagion and hospitalizations.

Although department stores have reopened, with limited capacity, demand for clothing is unlikely to recover completely in the near future. Domestic consumption is likely to see an improvement during the upcoming holiday sales, but industry contacts expect only 50 percent of pre-COVID-19 consumption. Sixty percent of textile industry members believe that recovery is not likely before the end of 2021, and 40 percent believe it will be well into 2022 before consumer purchasing power and global demand recovers.

Low Demand, But Imports Continue

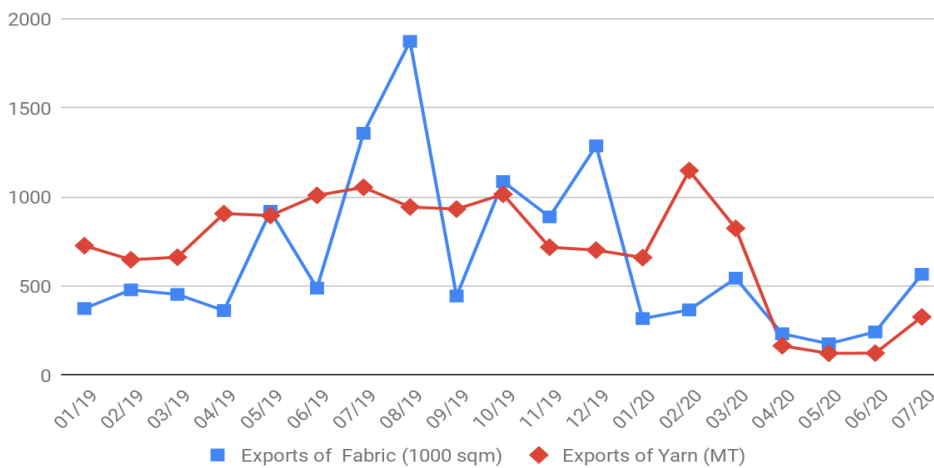
Demand for textiles and finished garments both domestically and for export declined dramatically during the beginning months of the global COVID-19 pandemic. Data from the National Institute of Statistics and Geography (INEGI) show that clothing manufacturing fell 13 percent in March, 78 percent in April, 57 percent in June, and 35 percent in August, compared to 2019. Contacts indicate that despite disruptions, imports of undervalued and improperly taxed textiles have continued, resulting in additional damages to the Mexican textile sector.

Trade

The Post forecast for MY 2020/21 cotton exports is 0.2 million bales, 69 percent lower than MY 2019/2020, based on the expectation that domestic production will be of appropriate quality for domestic consumption use. MY 2019/20 exports are revised to 0.6 million bales, 25 percent higher than previously estimated on low quality production in Baja California and Laguna Region that was not accepted by the domestic textile industry and exported to other markets (mainly Turkey, Pakistan and India).

While cotton and textile integration between the United States and Mexico remains strong, there were noticeable effects in the beginning months of the COVID-19 pandemic. Demand shocks resulted in a sharp reduction in exports of cotton yarn and fabric in April, May and June, with slight recovery beginning in July.

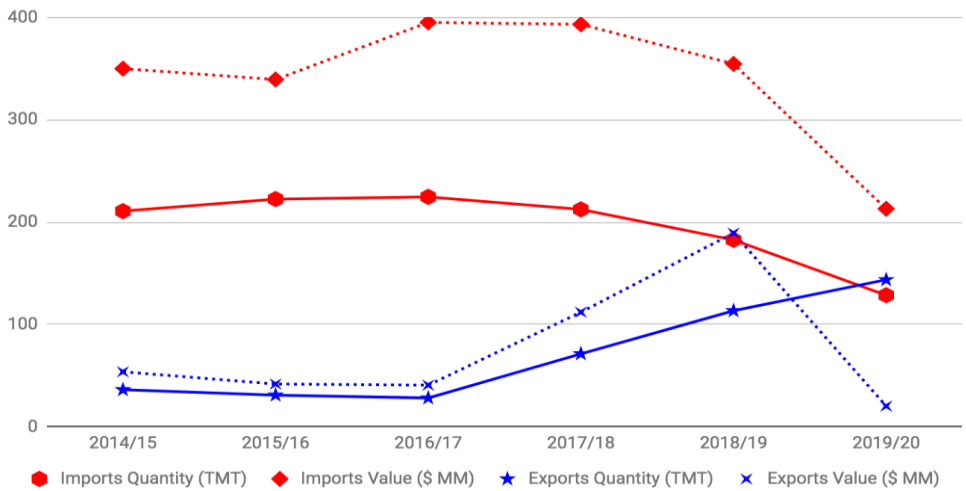
Chart 1. Mexican Exports of Cotton Yarn and Fabric



Source: Trade Data Monitor (TDM)

Mexico is dependent upon imports to cover domestic demand. While exports increased on a quantity basis in MY 2019/20, values were reduced significantly on low quality supplies. A slow recovery of imports from the United States is forecasted for MY 2020/21.

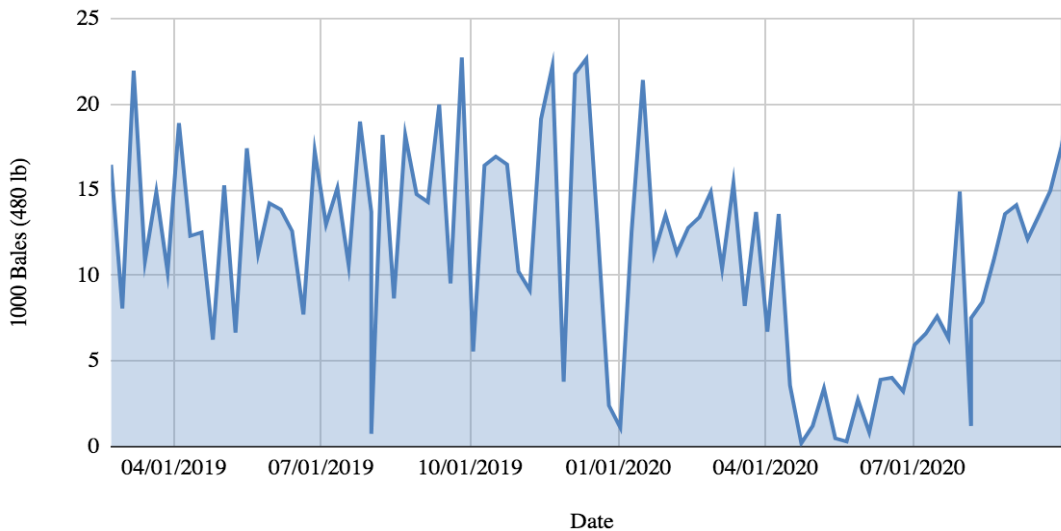
Chart 2. Mexican Imports and Exports of Cotton



Source: Trade Data Monitor (TDM)

The Post MY 2020/21 cotton import forecast is 0.8 million bales, 33 percent higher than the previous forecast, mainly on lower domestic production and a quicker than expected reopening of textile factories. The below charts further illustrate the drastic reduction of U.S. cotton during the height of COVID-19 sanitary measures and industry shutdowns in both the United States and Mexico.

Chart 3. Weekly Cotton U.S. Imports to Mexico



Data Source Exports Sales Reporting ([ESR](#)) converted to 480 lb. bales

Stocks

The Post MY 2020/21 ending stocks forecast is 0.79 million bales, a decrease of one percent from the previous forecast, due to the higher consumption. MY 2019/20 ending stocks are estimated at 0.76 million bales, 13 percent lower than previous forecasted, on higher than expected exports.

Policy

Seed Shortage

Cotton is the only GE crop produced commercially in Mexico. Even before the rejection of new GE cotton cultivation permits in 2019 and 2020, Mexico's slow pace approval of GE crops resulted in a smaller variety of seeds available to producers. The only varieties GE cotton still approved for cultivation in Mexico are:

- 1- Resistance to lepidopteran insects and tolerance to the herbicide glyphosate
- 2- Tolerance to the herbicides dicamba, glufosinate ammonium, and glyphosate
- 3- Glyphosate tolerance
- 4- Resistance to lepidopteran insects and tolerance to the herbicides dicamba, glufosinate ammonium and glyphosate.

The Secretariat of Environment and Natural Resources (SEMARNAT) is responsible for reviewing and issuing binding opinions for permits, while SADER, through the National Service for Agri-Food Health, Safety and Quality (SENASICA), supplies permits directly to seed companies. In its negative opinions, SEMARNAT stated it rejected the cotton events because of concerns that GE varieties of cotton would cross with traditional wild cotton populations found in the south of the country. They also stated that the lack of indigenous consultation process conducted by the government was cause for rejection. However, wild cotton populations are not found in northern Mexico, where the commercial cotton is grown. The permit rejections have had significant ramifications for cotton planting in Mexico, as producers now only have access to a few outdated GE seed varieties that are not compatible in all growing areas. For comparison, the Government of Mexico has approved only four commercial GE varieties, while Brazil has 23 varieties available for producers.

Glyphosate Ban

In November 2019, SEMARNAT unilaterally stopped issuing import permits for glyphosate, citing the precautionary principle and concerns about glyphosate's impact on human health and the environment. SEMARNAT officials have promoted the need for Mexico to transition to an agro-ecological model of agriculture, a system of agriculture without the use of biotech crops or agrochemicals. Although glyphosate use is still allowed within Mexico, Mexican officials have stated that they plan to 'phase-out' usage of glyphosate over the next three-five years; although no details of this plan have yet been released and no new import permits have been granted. If bans continue, producers are likely to use other types of herbicides, and the price of production will rise to between \$900 and \$1,000 pesos per hectare, in comparison to \$160 pesos with glyphosate usage.

Prices

The New York Stock Exchange (NYSE) average price for cotton on November 3, 2020 was USD \$0.52 per pound. Cotton prices have continued to rise slowly and this will be a factor to drive the producers' decision for the next cycle.

Attachments:

No Attachments