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**Report Highlights:**

The Mexican cotton sector is facing a myriad of challenges, resulting in significant impacts to production in marketing year 2020/21, while COVID-19 demand reductions and supply chain impacts in the textile industry are likely to continue through 2021. Seeds shortages due to lack of genetically engineered (GE) seed approvals persist, and a glyphosate import ban is likely to affect pest protection in the near future, as existing stocks are dwindling down. Additionally, electricity cuts are affecting irrigation machinery and access to water for producers in Chihuahua State, the country's largest producer. Reductions in production are likely to be fully recovered by domestic supply stocks, as lowered global and domestic textile demand has relieved pressure for imports.

## Production

While weather has been ideal throughout the growing season, reduced access to inputs for production, reduced government support, and low global demand due to effects of the Covid-19 pandemic is reducing production gains observed in previous years. The Post MY 2020/21 cotton production forecast is 1.049 million bales on updated information from the State Committees of Plant Health and producer associations, a 37 percent decrease from the previous MY, and slightly lower than previous forecasts. While planted area is forecasted at 146,000 ha, a 36 percent reduction compared to the previous MY, contacts state that seed sales correspond with only 84,000 hectares. Planted area in Chihuahua, the country's largest producer, is 103,217 ha, a 35 percent reduction from the previous MY. This reduction is a result of a lack of GE seeds, low glyphosate stocks, and reduced global demand for textiles and clothing. Additionally, contacts are reporting that water availability for irrigation systems is presenting additional challenges, due to shortages made by the Federal Electricity Company (CFE). Cotton planted area in Chihuahua is typically irrigation fed, but due to continuous suspensions of the electricity supply needed to operate and maintain wells, they are now relying heavily on seasonal rain to provide between 35 and 50 percent of water needs. Rising costs of production for pest eradication and weed management, and the lack of available seed varieties is resulting in some producers deciding to plant other crops like sorghum, wheat and watermelon for MY 2020/21.

**Table 1. MY 2020/21 Forecasts by State**

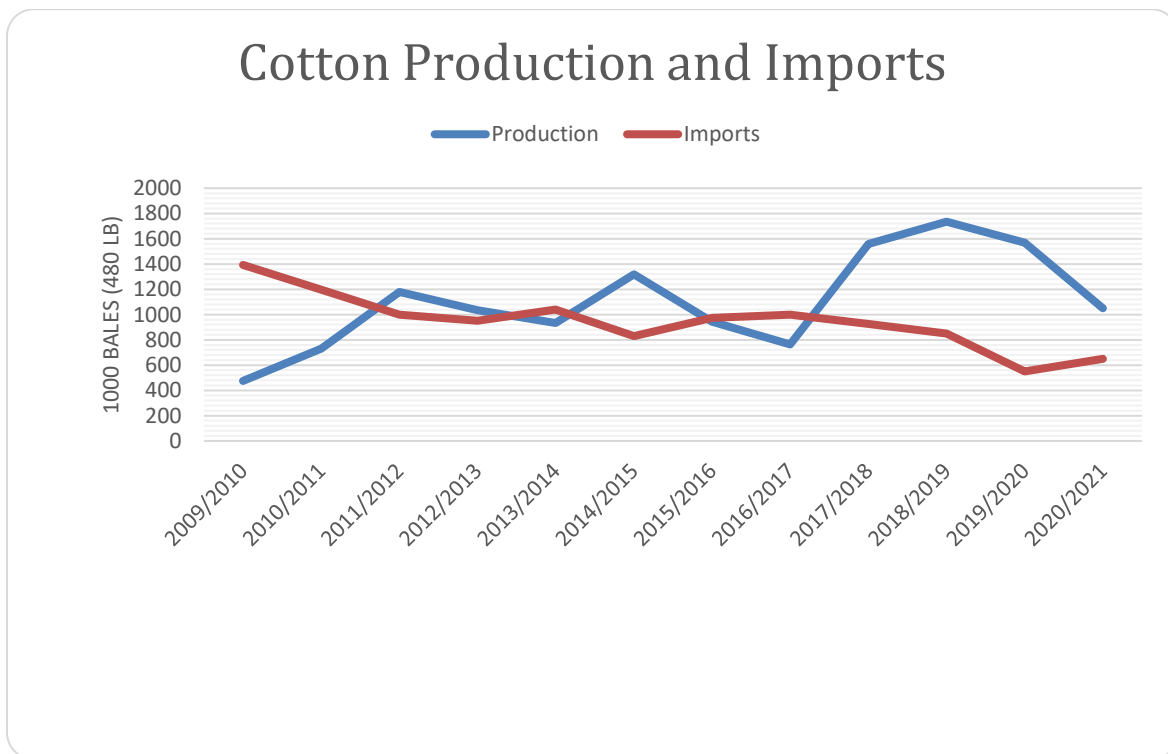
<b>State</b>	<b>Planted Area (Ha)</b>	<b>Yield (Bales/Ha)</b>	<b>Production</b>
Chihuahua	103,217	7.3	753,484
Baja California	19,905	7.2	143,449
Coahuila	8,529	7.8	66,140
Tamaulipas (Winter)	8,837	5.0	44,562
Sonora	5,040	6.8	34,455
Durango	928	7.5	6,975
<b>TOTAL</b>	<b>146,456</b>	<b>7.2</b>	<b>1,049,064</b>

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

## Policy

### *Seed Shortage*

The Secretariat of Environment and Natural Resources (SEMARNAT) issued negative binding opinions for all GE cotton planting requests this year, resulting in a shortage of seeds available for planting. SEMARNAT is responsible for reviewing and issuing binding opinions for permits, while the Secretariat of Agriculture and Rural Development (SADER) supplies permits directly to seed companies. SEMARNAT cites concerns of genetically modified varieties intermixing with traditional wild cotton populations found in the south of the country, as well as absence of indigenous consultation process that must be carried out by the government as reason for rejection. Wild cotton populations are not found in the north, where the majority of commercial cotton is grown. Permit rejections have had significant ramifications for cotton planting in Mexico, as producers have access to very few outdated GE seed varieties that are not compatible in all growing areas, and result in poor yields and ineffective pest protection. For comparison, the Government of Mexico has approved only four commercial GE events, while Brazil has 21 events available for producers.



Source: Mexican National Institute of Statistics and Geography (INEGI)

## *Glyphosate Ban*

Since November 2019, SEMARNAT has unilaterally stopped issuing import permits for the pesticide glyphosate, citing the precautionary principle. Secretary Víctor M. Toledo has mentioned on several occasions that he promotes an agro-ecological public policy, which would include suppressing agricultural inputs used to protect the crops from pests and disease. This measure would represent a total ban on the use of glyphosate in the country, resulting in increases manual labor, increased costs for alternative pest and disease protection, and will likely result in poorer yields. Cotton production accounts for five percent of glyphosate use in Mexico, of which 100 percent is imported and reformulated by Mexican companies.

**Table 2. Cotton Production, Supply and Distribution for Mexico**

Cotton	2018/2019		2019/2020		2020/2021	
Market Year Begins	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	146
Beginning Stocks	655	655	765	694	764	880
Production	1735	1735	1570	1661	1050	1049
Imports	850	850	550	550	650	600
MY Imports from U.S.	0	850	0	550	0	600
Total Supply	3240	3240	2814	2905	2464	2529
Exports	500	521	525	525	200	200
Use	1950	2000	1500	1475	1700	1500
Loss	25	25	25	25	25	25
Total Dom. Cons.	1975	2025	1525	1500	1725	1525
Ending Stocks	765	694	764	880	539	804

Total Distribution	3240	3240	2814	2905	2464	2529
Stock to Use %	31.22	27.53	37.73	44	28.37	47.29
Yield	1555	1555	1519	1572	1429	1564

### *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. Funding is shared by APHIS, states and the federal government in Mexico, and contributions from each producer. Although the program has shown tremendous success, cuts in support programs for the majority of the agricultural sector is affecting this program.

### **Consumption**

Post forecasts MY 2020/21 cotton consumption at 1.52 million bales. The textile industry began operating at 30 percent capacity in July and August, after operations being limited to the production of personal protective equipment only for five months during COVID-19 sanitary measure shutdown measures. Although department stores have now reopened, demand for clothing is unlikely to recover completely in the near future, and clothing and textile orders have fallen for five consecutive months. Contacts indicated full recovery is not likely until the end of 2021, given low purchasing power domestically, and continued low global demand. According to the National Institute of Statistics and Geography (INEGI), textile and clothing production was reduced by 80 percent in April and 57 percent in June, when compared to the same period in 2019.

COVID-19 impacts have been exacerbated in Mexico, due to an already weak economy and peso, reduced global demand, low oil prices, and a lack of government support for both industry and social programs. The Textile Industry Chamber (CANAINTEX) reports that the financial health of textile companies in particular has deteriorated significantly because of consumption and supply chain disruptions and lack of government interventions. Long-term effects to the industry are expected.

### **Trade**

The Post forecast for MY 2020/21 cotton exports is 0.2 million bales, reflecting lower demand. Low oil prices are likely to increase the demand for synthetic fibers.

The Post MY 2020/21 cotton import forecast is 0.6 million bales on lower domestic textile production and use of domestically produced cotton. The MY 2019/20 forecast is revised to 0.55 million bales, eight percent lower than the previous forecast.

### **Stocks**

The Post MY 2020/21 ending stocks forecast is 0.8 million bales, a decrease of 10 percent from the previous forecast, due to the decrease in production. MY 2019/20 ending stocks are forecasted at 0.88 million bales, eight percent lower than previous estimates, on lower than expected imports.

### **Prices**

The New York Stock Exchange (NYSE) average price for cotton on August 17, 2020 was USD \$0.63 per pound. Cotton prices were slightly lower in July at \$0.61 per pound. Given the massive drop in demand in recent months was an effect of COVID-19 and not prices, lower cotton prices alone would have little impact on demand.

**Attachments:**

No Attachments