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## Mexico

### Cotton and Products Annual

#### Cotton Production Expected to Decline as Domestic Consumption Holds Steady

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**Report Highlights:**

The Post/New MY 2013/2014 total Mexican cotton production is forecast to drop approximately 23 percent due to an expected reduction in planting area resulting from low cotton prices combined with high domestic production costs. Total domestic cotton consumption in MY 2013/14 is forecast to remain unchanged from last year at 1.8 million bales (each bale weighs 480 pounds). Imports of apparels and textiles from China have increased with the removal of protective duties. The next round of removal of protective duties was scheduled for January 2013 but recently postponed until January 2014.



### Executive Summary:

The Post/New MY 2013/14 total Mexican cotton production is forecast to decrease approximately 23 percent due to an expected reduction in planted area. Sources stated that the reduction in planted area was mainly the result of the low cotton prices and growers switching to other crops that may bring in more attractive income. Industry sources estimate that MY2012/13 yields are expected to reach close to a higher than normal average of seven bales per hectare (ha), as a result of Genetically Engineered (GE) cotton seed use and very favorable weather conditions. The MY 2013/14 internal consumption forecast is expected to be maintained at the same level as in MY 2012/13. Imports of apparel and textiles from China have increased substantially with the removal of protective duties that went into effect on January 1, 2012. A second round of cuts is expected for January 2014.

The Mexican Government (GOM) unveiled a program in December 2008 that established a schedule for the reduction in five annual stages of the Most-Favored-Nation (MFN) duty rates on approximately 97 percent of manufactured imports. The most recent round of cuts were scheduled to take place on January 1, 2013 which targeted 171 tariff lines, including 114 apparel items of HS Chapters 61 and 62, eight textile products of HS Chapter 63, and 49 footwear items of HS Chapter 64. However, on December 31, 2012, the GOM issued a decree that postpones until January 1, 2014 enforcement of import duty reductions for 94 tariff lines, including 73 apparel items, seven textile products and 14 footwear items.

### Commodities:

Cotton

### Production:

The Post/New MY 2013/14 total Mexican cotton production forecast decreased to 850,000 bales due to lower expected planted area compared to the previous year. The reduction in planted area has been continuous since MY2011/12, influenced mainly by the reduction in international cotton prices that compel farmers to switch to other crops which may offer higher income.

Table 1 shows Mexico's cotton production forecast by state/region for MY13/14.

Table 1. Mexico: Forecast Cotton Production by State/Region for MY2013/14

Region	Planted Area (Has)	Yield (Bales/Ha)	Production (Bales)
Southern Sonora	4,000	4.30	17,200
Mexicali, Baja California	32,504	6.50	211,276
Chihuahua	82,000	6.70	549,400
La Laguna / Durango and Coahuila	9,000	7.00	63,000
Tamaulipas	2,000	5.00	10,000
<b>TOTAL</b>	<b>129,504</b>	<b>6.56</b>	<b>850,476</b>

The Post/New MY 2012/13 total Mexican cotton production estimate has been revised upward from the USDA/official estimate to 1.09 million bales, based on updated figures from the Confederation of Mexican Cotton Associations (CMCA). Sources attribute the increase in cotton production to higher

yields due in part to the increased adoption of GE seeds (GE seed permits granted by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) during MY2011/12 allowed the GE seeds to be planted in MY2012/13). Additionally, favorable weather conditions played a big role in the MY 2012/13 increase in cotton production. Table 2 provides MY2012/13 cotton production estimates by state/region.

Table 2. Mexico: Cotton Production estimate by State/Region for MY2012/13

Region	Planted Area (Has)	Yield (Bales/Ha)	Production (Bales)
Southern Sonora	10,000	4.30	43,000
Mexicali, Baja California	38,000	7.20	273,600
Ascension, Chihuahua	35,421	6.78	240,492
Juarez, Chihuahua	17,559	6.50	114,660
Delicias, Chihuahua	2,000	8.30	16,722
Ojinaga-Aldama, Chihuahua	30,055	8.60	241,359
La Laguna / Durango and Coahuila	17,742	8.65	153,517
Tamaulipas	2,000	5.70	11,400
<b>TOTAL</b>	<b>152,777</b>	<b>7.16</b>	<b>1,094,750</b>

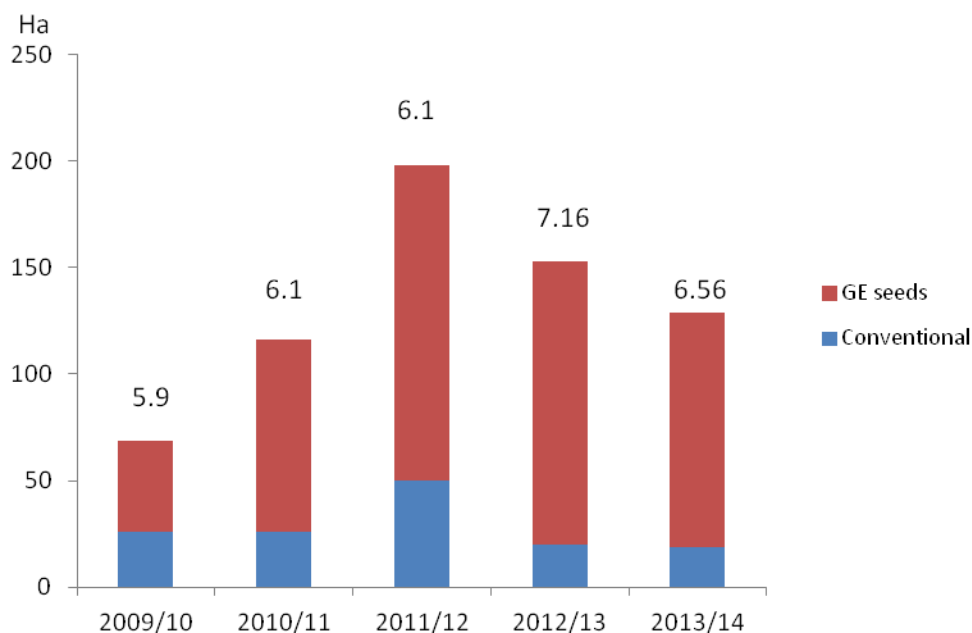
The MY 2011/12 total cotton production remains unchanged, but the total cotton harvested area estimate has been revised slightly higher according to recently released official data from SAGARPA.

Cotton is grown throughout the year during two seasons: the main growing season is spring-summer (planted mainly from March –May and harvested August – October) and fall-winter (which is planted in November-January and harvested mainly in April to May). Cotton yields vary significantly among the major-producing areas in Mexico. Average cotton yields for MY 2012/13 are estimated at 7.16 bales /ha. The highest yielding area is expected to be in the region of La Laguna with 8.65 bales/ha, while the lowest yielding areas are located in Sonora with only 4.3 bales/ha and Tamaulipas with 5.7 bales/ha. Although, most cotton growers in northern Mexico have adopted the use of GE seed varieties, other factors, such as weather and use of technology can explain differences in production levels. For example, in Tamaulipas all cotton production is in non-irrigated areas, which significantly reduces yields.

The CMCA stated that biotechnology continues to be an important tool in reducing pesticide usage in Mexico's cotton sector. According to CMCA, pesticide application has dropped by over 50 percent due to stepped up use of GE seeds while at the same time yields have increased dramatically. On the other hand, due to the sensitivity of the GE seed issue in Mexico, disproportionate administrative measures by the GOM continue to limit the timely purchase of imported GE seed from the United States. Additionally, during 2012, five commercial permits for GE seeds were denied by the GOM. Noteworthy is that some cotton producing areas that were granted commercial permits for GE seeds by the GOM in previous years were denied last year. ([Status of GE permits](#)).

Figure 1 shows hectares (in thousands) planted to cotton, the use of GE cotton seeds verses conventional seeds, and the average cotton bale yield/ha for the last four years. Official data for 2013/14 is not yet

available but sources state that GE seed use is expected to cover about 85-90 percent of the planted area for cotton.



Regarding the quality of cotton fiber, CMCA officials expect that more widespread use of GE varieties will allow producers to obtain not only better yields but significantly improve the quality of domestic cotton production. National Textile Industry Chamber of Mexico (CANAINTEX) representatives stated that standardization in quality is of extreme importance for the continued stability of domestic consumption and a benefit of using GE cotton seed varieties is that it allows for the standardization of cotton quality.

### **Consumption:**

Total domestic cotton consumption in MY 2013/14 is forecast to hold at 1.8 million bales (each bale weighs 480 pounds). The Mexico cotton consumption level remains unchanged from MY 2012/13 due mainly to imports of fabrics and apparels from China. Mexico has seen an increase in these types of cotton products from China mainly as the result of the elimination of protective duties that took effect January 1, 2012. Additionally, it is expected that the elimination of a second set of protective duties will commence on January 1, 2014 (See Policy section). The MY2011/12 domestic cotton consumption estimate has been revised slightly higher by 1.4 percent according to updated data from the National Chamber of the Appareling Industry (CANAIVE).

### **Trade:**

The Post/New MY 2013/14 total cotton import forecast is expected to decrease approximately 8 percent in comparison with the Post/New revised estimate for MY 2012/13. The decrease is due mainly to a higher expected demand for domestic stocks from the textile industry. The United States should remain the main supplier to Mexico which accounts for almost 100 percent of total cotton imports.

The Post/New total cotton import estimates for MY 2012/13 have been revised slightly downward from the USDA/Official estimate to 1.13 million bales, using the updated data available from the Global Trade Atlas (GTA). The Post/New total cotton import for MY 2011/12 have been revised upward from the USDA/Official to 1.015 million bales in order to reflect the data from the GTA.

The Post/New Mexican cotton export forecast for MY 2013/14 is expected to reach 250,000 bales as the Mexican cotton industry continues to make inroads in new markets in Central and South America and due to the flat growth rate of domestic consumption. Export estimates for MY 2012/13 have been revised downward from USDA/Official data based on recently released information from GTA. Export data from MY 2011/12 remains unchanged.

### **Stocks:**

Post/New MY 2013/14 ending stocks are forecast to decrease to 710,000 bales in comparison with the Post/New revised estimate for MY 2012/13, due primarily to a reduction in domestic production. The Post/New MY 2012/13 ending stock estimate has been revised upward from USDA/Official estimates. The upward revision is due to higher-than-previously anticipated imports and production as well as lower-than-previously anticipated exports. MY 2011/12 estimates have been revised slightly downward from USDA/Official estimates due to a higher-than-expected domestic consumption. This data reflects the more recent information from industry sources.

### **Domestic Cotton Prices:**

Cotton prices in Table 3 are for the annual average domestic market in Mexico per metric ton. The price for future contracts at May 2013 is US\$1218.1 per metric ton (INFOASERCA, SAGARPA).

Table 3. Average annual price for domestic market of cotton

	US dollar (pesos/ton)	Annual variation	Standard deviation
2010	1,776 (23,088)		4,917
2011	2,355 (30,618)	33	4,213
2012	1,932 (25,115)	-18	1,502

Source: Under Secretariat of Agribusiness (SFA, SAGARPA), now SAC, SAGARPA.

Note: For 2012 was considered the accumulated to April 6, 2012. Current Exchange Rate: U.S. \$1.00 = 13.00 pesos

### **Policy:**

SAGARPA recently published in the Diario Oficial (Mexico's Federal Register) a notice which modifies the operational rules of PROCAMPO - a domestic agricultural support program for 2013 with a budget exceeding U.S. \$1 billion. The official title of the program changed from, "PROCAMPO for Better Living" to "PROCAMPO Productive", which highlights a new provision that growers of cotton and other agricultural products are only eligible to receive subsidies based on actual production. Previously, growers could get support payments just for land ownership, not actual production. Under the revised program, the maximum subsidy amount that a grower may receive cannot exceed 100,000 pesos (roughly U.S. \$7,750.00) per crop cycle ([MEX3012](#)).

AgroBio, a private organization made up of the main agricultural biotechnology developers in Mexico including Monsanto, Pioneer, Syngenta, Dow, Bayer Crop Science, etc, launched a “[Cotton Plan 2020](#)” in September 2011. The main objective of this plan is to increase domestic cotton production from 750,000 bales in 2010 to 3 million bales in 2020, primarily through the use of GE cotton seed and increased planting area. CMCA admits that this plan is extremely ambitious. CMCA indicated that increasing production to 3 million bales would require at least 500,000 ha of planted area. As one of the steps to reach this objective, in January 2013, the agricultural biotechnology developers in Mexico submitted a request to SAGARPA to start the environmental release process in the State of Michoacan, an area that has not used GE cotton before. Based on Mexico’s Biosafety Law, all GE seeds must go through three different testing phases: experimental, pilot, and commercial. It is considered in the best interests of biotechnology developers to complete experimental testing as soon as possible in order to begin the pilot testing and lastly, the commercial release of GE seeds. Approximately six months after an experimental environmental release request by the agricultural biotechnology developers is submitted (January 2013), SAGARPA should issue a response to the to the developers’ request. At this time the response of the GOM is still uncertain. In 2012, five permits for commercial release of GE cotton were denied by SAGARPA, but meanwhile in 2011 permits for commercial release were granted for the same GE seeds. (MX3028).

The GOM continues to encourage forward contract purchases between farmers and buyers through the Forward Contract Program, *Agricultura por Contrato*. The program is designed for producers, traders and consumers of corn, wheat, sorghum, soybean, safflower, cotton, coffee, orange juice and livestock products (beef and pork), and recently added cocoa and coverage for agricultural and fishing inputs such as fertilizers, natural gas (and derivatives), and diesel. Industry sources stated that this program is a novel subsidy system based on market prices and tools that facilitates price stability, merchandising, and marketing for Mexican producers of many agricultural products.

The GOM has taken decisive steps in recent years to reduce the duties in place on a wide array of products as part of a broader strategy to remove tariff and non-tariff barriers to trade (see 2012 GAIN report MX2024). These efforts have resulted in greatly enhanced trade for Chinese textile and apparel exporters in the Mexican market, which now has a considerably lower duty burden than in MY2011/12. In the meantime, Mexican manufacturers have continued to voice concern to the GOM about the effect of a sudden surge in textile and apparel shipments from mainland China. In response to those concerns, the GOM stated that they now have in place a stronger trade enforcement policy with respect to apparel, footwear, and other sensitive products.

Initially, transition duties that were in place on 112 apparel items, 14 textile items, a wide range of footwear and various other products originating in China, were eliminated on December 12, 2011. These duties were first implemented on October 15, 2008, as part of a deal that required Mexico to replace non-WTO-compliant and extremely high antidumping duties that had been in place on most textiles and apparel for many years, with a temporary measure on a significantly narrower group of products. According to sources, the objective of the temporary measure was to give Mexican manufacturers additional time to prepare for growing competition.

The GOM unveiled a program in December 2008 that established a schedule for the reduction in 5 annual stages of the Most-Favored-Nation (MFN) duty rates on approximately 97 percent of manufactured imports. The most recent round of cuts was expected to go into effect on January 1, 2013.



The duty rate reductions were initially expected to include 171 tariff lines, including 114 apparel items of HS Chapters 61 and 62, eight textile products of HS Chapter 63 and 49, and footwear items of HS Chapter 64. However, on December 31, 2012, the GOM issued a decree that postpones until January 1, 2014 the entry into force of the import duty reduction (from 25 percent to 20 percent for apparel and textile products and from 30 percent to 20 percent for footwear) for 94 of these tariff lines, including 73 apparel items, seven textile products and 14 footwear items.

### Production, Supply and Demand Data Statistics:

Table 4. Mexico: PSD for MY 2010/11 through 2012/13

Cotton Mexico	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	198	0	157		130
Area Harvested	192	193	153	153		129
Beginning Stocks	595	595	710	700		895
Production	1,180	1,180	1,050	1,090		850
Imports	1,000	1,015	1,150	1,130		1,040
MY Imports from U.S.	0	992	0	1,100		1,036
Total Supply	2,775	2,790	2,910	2,920		2,785
Exports	340	340	350	200		250
Use	1,700	1,725	1,800	1,800		1,800
Loss	25	25	25	25		25
Total Dom. Cons.	1,725	1,750	1,825	1,825		1,825
Ending Stocks	710	700	735	895		710
Total Distribution	2,775	2,790	2,910	2,920		2,785
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						

### Author Defined:

For More Information:

FAS/Mexico Web Site: We are available at [www.mexico-usda.com](http://www.mexico-usda.com) or visit the FAS headquarters' home page at [www.fas.usda.gov](http://www.fas.usda.gov) for a complete selection of FAS worldwide agricultural reporting.

FAS/Mexico YouTube Channel: Catch the latest videos of FAS Mexico at work

<http://www.youtube.com/user/ATOMexicoCity>

Useful Mexican Official Web Sites: Mexico's equivalent to the U.S. Department of Agriculture (SAGARPA) can be found at [www.sagarpa.gob.mx](http://www.sagarpa.gob.mx), equivalent to the U.S. Department of Commerce (SE) can be found at [www.economia.gob.mx](http://www.economia.gob.mx) and equivalent to the U.S. Food and Drug Administration



(SALUD) can be found at [www.salud.gob.mx](http://www.salud.gob.mx). The information about biotechnology and biosafety in Mexico is compiled by an Interministerial Commission (CIBIOGEM) <http://www.cibiogem.gob.mx>. These web sites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with, the information contained on the mentioned sites.

Other Relevant Reports Submitted by FAS/Mexico:

Report Number	Subject	Date Submitted
<a href="#">MX2094</a>	Cotton Production Up as Domestic Consumption Drops	12/21/2012
<a href="#">MX2024</a>	Cotton and Products Annual	04/25/2012
MX1096	November Cotton update	12/15/2011
MX1054	June Cotton Update	6/30/2011
MX1018	February Cotton Update	03/15/2011
MX1008	December Cotton Update	02/01/2011